Journal of Management & Organization, 20:6 (2014), pp. 764–783

doi:10.1017/jmo.2014.52

Management and ownership control in foreign investments: An analysis of the influence of isomorphism and quality of institutions

Mª de la Cruz Déniz-Déniz* and Antonia Mercedes García-Cabrera†

Abstract

According to new institutionalism, this work simultaneously analyzes different methods of operating abroad – that is, joint venture, acquisition and greenfield – in terms of the level of management and ownership control they provide. This research studies the regulative and cognitive institutions that explain the multinational company's choice of a particular level of that control for its subsidiaries years after entering a foreign country. We analyze 109 German firms with subsidiaries in Spain. The results show that the level of management and ownership control for the subsidiary responds to the institutional quality of the host country and the internal and especially external isomorphic pressures.

Keywords: foreign operation method, new institutional theory, institutional quality, mimetism, structural equation modeling

Received 11 January 2013. Accepted 3 April 2014

INTRODUCTION

Based on the new institutional theory, this paper examines the influence of institutional factors on the use of a particular foreign operation method by a multinational company (MNC) for its subsidiaries some time after entering a country. This allows us to add to the body of international business research in three areas: First, we develop a new variable called level of management and ownership control in order to highlight that ownership mode and establishment mode can potentially be made as a single decision; second, we draw attention to how the institutional environment impacts the choices made in respect of management and ownership control; and third, we utilize primary data that allows for these choices to be analyzed years after the event.

International business research focuses on two separate choices: the ownership mode decision – wholly owned operations versus joint ventures (e.g., Brouthers, 2002; Yiu & Makino, 2002; Ekeledo & Sivakumar, 2004); and the establishment mode decision – acquisitions versus greenfield start-ups (e.g., Brouthers & Hennart, 2007; Slangen & Hennart, 2007; Demirbag, Glaister, & Tatogly, 2008). Following Dikova and van Witteloostuijn (2007), the two streams of research on ownership mode and establishment mode are valuable but limited since they investigate how some factors affect either the

* Department of Business Administration, Facultad de Ciencias Económicas y Empresariales, Universidad de Las Palmas de Gran Canaria, Campus Universitario de Tafira, Canary Islands, Spain

† Department of Business Administration, Facultad de Ciencias Económicas y Empresariales, Universidad de Las Palmas de Gran Canaria, Campus Universitario de Tafira, Canary Islands, Spain

Corresponding author: mcdeniz@dede.ulpgc.es

establishment or the entry mode choice in isolation. This is because such studies argue that both decisions regarding foreign direct investment (FDI) are conceptually different.

With regard to the sequential or simultaneous character of these related decisions, and following Kogut and Singh (1988) and Meyer, Estrin, Bhaumik, and Peng (2009), we suggest that these two choices are made simultaneously. Kogut and Singh (1988: 412) argue that 'joint ventures are not merely a matter of equity control, but represent a set of governance characteristics appropriate for certain strategic or transaction cost motivations.' Additionally, Meyer et al. (2009) state that because institutional issues affect both ownership and establishment choices, it is necessary to analyze the different modes for setting up a foreign direct investment project as interdependent and simultaneous. Few studies use an integrated approach combining these two decisions (e.g., Kogut & Singh, 1988; Woodcock, Beamish, & Makino, 1994; Dikova & van Witteloostuijn, 2007; Meyer et al., 2009; Raff, Ryan, & Stähler, 2009). The current work contributes to the field by assuming that MNCs adopt a single decision that includes the simultaneous choice of ownership mode and establishment mode for its foreign subsidiaries. With this aim we present a new variable called level of management and ownership control. Joint venture, acquisition, and greenfield are the three different levels of this new variable from which an MNC can choose for its operations abroad.

Second, this study provides evidence about the relative importance of external and internal institutions as antecedents of that single decision, years after the MNC has entered a country. Specifically, this work analyzes whether the host country institutions currently in place justify the MNC persisting with the method it initially adopted when it entered the country. According to new institutional theory, MNCs must act in response to institutional pressures if they wish to carry out efficient transactions with lower costs and risks (Meyer et al., 2009). External institutions have been studied through the economic, political, and social institutions in a host country (Chan, Isobe, & Makino, 2008; Demirbag, Glaister, & Tatogly, 2008), as well as through the cumulative knowledge coming from previous decisions adopted by other organizations (Huang & Sternquist, 2007). Internal institution refers to the MNC's own institutional environment, which affects the actors who are part of that organization (Ingram & Silverman, 2002).

Researchers mainly study the institutional antecedents of the ownership and establishment mode decisions in isolation, finding either different or common influences over these two decisions (e.g., Dikova & van Witteloostuijn, 2007). Nevertheless, if ownership and establishment mode choices are thought of as a single decision to be made, it is necessary to know what antecedents determine their simultaneous choice. Meyer et al. (2009) have made advances along this line, although they focus on a small number of antecedents that are related to the host country's economic and political institutions.

Moreover, the literature concentrates mainly on explaining these decisions only at the time the MNC enters a foreign country (e.g., Dikova & van Witteloostuijn, 2007; Meyer et al., 2009). It would be interesting to study the reality of these decisions some years after entry, as Pedersen, Petersen, and Benito (2002) suggest. If MNCs entering a foreign country do not change their method of operation over time, it is important to study whether current institutions continue to justify the use of the method initially chosen. If they do not, these MNCs would not be pursuing their own interests since a tendency could exist to maintain past decisions irrespective of current host country institutions.

Third, our research is based on primary data so as to study operation method antecedents from within multiple levels of the institutional environment, namely the home and host countries, sector and corporate levels. Previous research examines institutions in these multi-level environments only at time of entry (e.g., Davis, Desai, & Francis, 2000) and uses secondary data to explain the MNC's operation method at that time (Lu, 2002; Chan & Makino, 2007). Although these data sets offer robust statistical results, they fail to take into account the firm's interests and politics or allow for the institutional factors to be evaluated years after entry. Primary data allows us to deal with these obstacles.

By considering Germany and Spain as part of the same economic bloc and being subject to common regulations, we study specific dimensions of their institutional environment and the role this plays in business choices. For example, Germany is considerably more innovative – the number of patents granted by the European Patent Office in 2011 was 13,785 for Germany and 488 for Spain, according to OECD statistics (http://stats.oecd.org). Germany was in eighth position among OECD-30 countries in 2011 in terms of labor productivity in the total economy, while Spain was in 17th. Finally, the manufacturing sector was more important in Germany than in Spain by more than three percentage points in 2011, according to International Monetary Fund data.

THEORETICAL FOUNDATIONS

The new institutionalism treats organizations and individuals as rational, in the basic sense that they will make choices that further their own interests taking into account the cognitive costs of decision making (Ingram & Silverman, 2002). Faced with the traditional institutionalism that emphasizes the search for legitimacy by conforming to institutional rules, the new institutionalism underlines the role of public and private actors in institutional development (Tracey & Phillips, 2011). Thus, it can be seen that organizations also affect institutions and supply institutional constraints that affect other actors (Ingram & Silverman, 2002).

Scott (1995: 33) defines institutions as 'cognitive, regulative and normative structures and activities that provide stability and meaning to social behavior.' Firms must conform and act in response to institutional pressures if they wish to gain legitimacy within an organizational field (Brouthers & Hennart, 2007; Chen & Yu, 2008). In the eyes of their internal and external constituents, actors gain legitimacy when they conform and react to the institutional system of rules, values and cognitions (Suchman, 1995; Brouthers & Hennart, 2007; Cheng & Yu, 2008), and as a result they manage to carry out efficient transactions with lower costs and risks (Meyer et al., 2009).

In the international context, institutions determine the pressures managers must respond to when making decisions about foreign investments and the prevalent criteria adopted for making such decisions (Meyer & Nguyen, 2005). Specifically, MNCs are simultaneously immersed in and exposed to multiple levels of institutional environment (Davis, Desai, & Francis, 2000; Lu, 2002; Chan & Makino, 2007; Huang & Sternquist, 2007). First, their external institutional environment, which firms share with other organizations – home and host countries, and sector – and which generates an external isomorphism to the extent that firms adopt similar business practices which allow them to make efficient transactions in that institutional context (Davis, Desai, & Francis, 2000; Harzing, 2002; Chan & Makino, 2007; Drogendijk & Andersson, 2012).

Second, their own institutional environment, which consists of institutional pressures from within the organization that make MNC subsidiaries become isomorphic to the parent organization's practices and structures (Kostova & Zaheer, 1999). As a result, an internal isomorphism among the subsidiaries appears (Haveman, 1993; Davis, Desai, & Francis, 2000; Chan & Makino, 2007; Drogendijk & Andersson, 2012) that is, to some extent, analogous to the external one. Thus, MNCs can create the institutions that affect their subsidiaries network.

According to new institutionalism, MNCs will pursue their own interest while taking into account the institutional environmental constraints (Ingram & Silverman, 2002). Thus, the existence of external and internal institutional pressures represents a challenge for the decision maker, particularly when both pressures suggest different organizational forms or practices.

With regard to the regulative institutions that form part of the external institutional environment, numerous constraints could affect, either positively or negatively, foreign investment. Researchers' interest focuses mainly on this institutional dimension through economic and political-legal stimuli (Chen, Yang, Hsu, & Wang, 2009) for foreign investment, such as fiscal pressure, the interest rate, investment assistance, and the availability of human capital (e.g., Demirbag, Glaister, & Tatogly, 2008). Demirbag, Glaister, and Tatogly (2008) and Slangen and Hennart (2007) refer to it as the quality of institutions or institutional quality of the host country, respectively. Specifically, favorable institutional conditions define an attractive environment for foreign investment (e.g., high potential business returns, reduced opportunity costs and activity risk) that would lead managers to choose a certain level of management and ownership control for subsidiaries abroad. Firms will obtain regulative legitimacy if they operate in accordance with rules that restrict their behavior and/or provide incentives and guidance to choose a particular level of control (Chen et al., 2009).

The normative institutions are related more to the cultural domain – values, beliefs, language and norms that are socially shared. Normative legitimacy is achieved when the firm's actions are guided by social conscience, and the generally accepted rules of conduct. Finally, the internal and external cognitive institutions emphasize cognitions and actors' generally shared perceptions of what is typical or taken for granted (Scott, 1995; Demirbag, Glaister, & Tatogly, 2007). In this way, the causal chain, which gives rise to the institutional development, produces the feedback effect (North, 1990; Caballero & Kingston, 2005): each person creates his own beliefs and makes his own decisions as regards the institutional reality, with those decisions becoming the institutions that influence the other agents' actions at a later date. Thus, the options for new institutions derive largely from pre-existing institutions (Ingram & Silverman, 2002). The firm obtains cognitive legitimacy when it mimics a particular decision previously adopted within the MNC or by a large number of other organizations (Huang & Sternquist, 2007), either from the firm's own sector or elsewhere (Lu, 2002). This last distinction is relevant because, according to Chan and Makino (2007), foreign subsidiaries that operate in different industries within a host country do not face the same set of pressures because governments manipulate regulatory policies differently in different industries. Thus, MNCs may be more likely to refer to other MNCs' subsidiaries that have been established in the same sector in the same host country.

The increased legitimacy that MNCs can obtain by isomorphism helps them to act in conditions of uncertainty (Kostova & Zaheer, 1999; Lu, 2002) and to make transactions efficiently in a particular institutional environment (Demirbag, Glaister, & Tatogly, 2008) without incurring undue cost or risks (North, 1990; Meyer et al., 2009). That is important for firms operating abroad, where the institutional heterogeneity or distance between countries will increase the liability of foreignness – social costs of doing business abroad (Eden & Miller, 2004).

In the next section we present the level of management and ownership control for foreign investments as a single decision that combines the ownership and establishment choices, and this will then be explained from the perspective of the new institutionalism.

Management and ownership control associated with foreign operation methods

The term foreign operation method is used in the international business literature to refer to the modes that involve outward transactions (e.g., exports, license, franchising) or FDI (e.g., joint venture) at entry time and/or years after entry time (e.g., Benito, Pedersen, & Petersen, 1999; Pedersen, Petersen, & Benito, 2002; Petersen & Welch, 2002).

The operation methods for an FDI project can be classified into four categories as a result of combining establishment modes (greenfield vs. acquisition) and ownership modes (wholly owned vs. joint venture): joint venture greenfield, partial acquisition, wholly owned greenfield and full acquisition (Brouthers & Hennart, 2007). However, and according to Hennart (1988), both partial acquisition and joint venture greenfield should be categorized as joint venture, since they are joint hierarchies. Thus, the operation method can be classified into three categories: joint venture, wholly owned acquisition and wholly owned greenfield (Kogut & Singh, 1988; Nitsch, Beamish, & Makino, 1996; Anand & Delios, 2002; Meyer et al., 2009). This study adopts these same criteria and offers a new variable that distinguishes different levels of management and ownership control associated with these three categories.

As Anderson and Gatignon (1986: 3) state: 'Control (the ability to influence systems, methods and decisions) has a critical impact on the future of a foreign enterprise. Without this control, a firm finds it more difficult to coordinate actions, carry out strategies, revise strategies, and resolve the disputes that invariably arise when two parties to a contract pursue their own interests.' Taking this control implies that the MNC must assume both commitment of resources (ownership control) and responsibility for decision-making (management control) because ownership by itself is not necessarily sufficient to guarantee complete managerial control (Nitsch, Beamish, & Makino, 1996; Jakobsen & Meyer, 2008). For instance, in some cases the MNC takes over management control and engages directly in the strategic management of the firm, and in other cases it acts more like a financial investor or venture capitalist, advising and possibly indirectly influencing the management, but not taking over direct control. Indeed, Child and Yan (1999) find that financial and nonfinancial resources have different impacts since they provide different bases of control. According to Woodcock, Beamish, and Makino (1994) and Nitsch, Beamish, and Makino (1996), joint venture, acquisition and greenfield provide different levels of management and ownership control. These operation methods will also imply taking certain forms of risk and at the same time will constitute a way of obtaining different levels of potential returns (Anderson & Gatignon, 1986) (see Table 1).

Researchers often use the resource commitment to distinguish between the choice of a joint venture or a wholly owned subsidiary when working in a foreign market. The level of ownership control is used as an approximate measure of the resource commitment. The higher the level of ownership for a method (i.e., greenfield and acquisition vs. joint venture), the greater will be the resource commitment (Canabal & White, 2008) and the return and risk (Anderson & Gatignon, 1986). A firm that does not have all the resources necessary to operate abroad or sufficient knowledge of the host market and that is prepared to risk disseminating its own assets in order to obtain these resources, could choose to work in a particular market through a joint venture (Woodcock, Beamish, & Makino, 1994). According to Chan and Makino (2007), another reason to operate abroad with a joint venture is the necessity to conform to institutional pressures obtaining legitimacy (Brown, 2012). In this case, the MNC will exchange a percentage of the equity ownership of its foreign subsidiaries for an important resource, legitimacy in the host country (e.g., conforming to a host country regulation related to foreign firms' entry), thus dealing with the liability of foreignness (Eden & Miller, 2004). This operation method will reduce resource commitment and some forms of risk but often at the expense of returns (Anderson & Gatignon, 1986).

With regard to the management control, the multiple ownership agreements that define a joint venture mean that the firm will face high costs in the initial negotiations to set up a relationship of control between the partners, as well as subsequent costs in managing the relationship (Beamish & Banks, 1987). Both costs are high because the parties in the relationship can behave opportunistically, putting the success of the operations at risk, since no control mechanism is as effective as ownership.

Table 1. Level of management and ownership control provided by each foreign operation method to MNC: associated risk and potential returns

Foreign operation method	*Ownership control*	*Management control*	*Investment risk*	*Potential returns*
Joint venture	Lower	Lower	Lower	Lower
Acquisition	Medium–higher	Medium	Medium–higher	Medium–higher
Greenfield	Higher	Higher	Higher	Higher

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

In contrast, wholly owned methods provide firms with greater management control over their foreign operations and their valuable resources (Brouthers, Brouthers, & Werner, 2008) because more integrated methods give the firm the authority to direct operations (Anderson & Gatignon, 1986).

Likewise, Woodcock, Beamish, and Makino (1994) argue that the concept of resource commitment can be used to differentiate between greenfield and acquisition. Firms that have the knowledge resources available will use the greenfield method, and those lacking these resources will use acquisition, employing financial resources to acquire such knowledge resources previously embedded in another organization (Meyer et al., 2009). This way, the MNC will control the financial resources used to acquire the ownership but not all the knowledge resources, slightly decreasing its management control. Both greenfield and acquisition avoid the risk of disseminating a firm's key assets since it reasons that it cannot risk its own resources in a joint venture to obtain the resources it lacks (Delios & Beamish, 1999). Other reasons to operate abroad with a greenfield or an acquisition are those related to the need to conform to different institutional pressures. The greenfield will give the MNC the opportunity to obtain legitimacy in the eyes of its internal constituents by replicating internal structures established in the past. In the case of the acquisition, the MNC could exchange part of its ownership control, in terms of the tacit knowledge owned by the acquired firm, for credibility among actors in the host country, thus gaining legitimacy.

The greenfield involves a greater level of investment risk as a consequence of the uncertainty associated with the new business project in the host country, with the MNC making the full investment. The acquisition, on the other hand, gives the MNC the security associated with a business project already operating in the host country, thus providing lower risk than the greenfield, but higher risk than a joint venture where the investment is shared with a local partner.

With regard to the levels of management control, Woodcock, Beamish, and Makino (1994) maintain that acquisitions involve extra control costs compared with greenfields. The information asymmetry created by the resource deficiency may limit the firm's ability to understand, and indeed control, the companies it has acquired. When a firm acquires a local company it absorbs a group of employees with their own routines and culture. Integrating these employees will be difficult, particularly if cultural differences exist between the two firms, perhaps because they come from different countries (Hennart & Reddy, 1997). Indeed, cultural distance (Yiu & Makino, 2002), as an important component of the institutional environment, reflects differences between home and host countries (Yiu & Makino, 2002; Eden & Miller, 2004; Demirbag, Glaister, & Tatogly, 2007). This cultural distance will hinder the parent company's adjustment to the conditions of the host country (Harzing, 2002). On the other hand, if a firm chooses to work in a foreign market using a joint venture, its level of management control is lower since it must be shared with local partners. These partners tend to be more knowledgeable about normative and regulative institutions such as the relationships with the administration, behavior of the demand, the culture, and so on. Thus, they will be able to behave opportunistically, causing the investor to face high costs to control the operations (Beamish & Banks, 1987). These high costs of management control, which stem from lower levels of ownership control within a shared investment, will reduce the potential returns for the MNC that chooses a joint venture. For the MNC that chooses a greenfield, the high management and ownership control will increase their potential returns as they rely on their own resources to invest in the host country. When the firm turns to the acquisition as a foreign operation method, it will not have ownership control of all the resources (e.g., knowledge embedded in acquired local firms) or complete management control over the operations. Thus, it will expect a higher level of potential returns than for the joint venture but lower than for the greenfield.

On the basis of the above considerations, we suggest that management and ownership control will vary according to foreign operation method choices. The highest level of control exists when the firm decides to operate abroad by a greenfield. At the opposite extreme, joint venture agreements involve the lowest levels of management and ownership control. Finally, the management and ownership control for the acquisition method is between the other two methods.

Institutional influences on foreign operation method choice

From the perspective of new institutionalism, it can be said that firms will choose a specific level of management and ownership control for which they find institutional support (Meyer & Nguyen, 2005). In the case of the regulative institutions, if they guarantee a high quality host country institutional environment – for example, trained human resources, fiscal incentives, suitable infrastructures, among other factors – the MNC will perceive a favorable setting that facilitates transactions without incurring in a high institutional risk (Demirbag, Glaister, & Tatogly, 2008; Chen et al., 2009). The MNC that finds such institutional support will use integrated operation methods that involve a greater degree of management and ownership control (Brouthers, Brouthers & Werner, 1999; Brouthers, 2002). Given the potential profits expected from the investment, if the firm does not exploit the business itself by using its key resources, it will face high opportunity costs (Brouthers, 2002). Thus, direct investment through a greenfield offers the firm the opportunity to obtain positive results and to develop competitive advantages at the international level, without facing high management and ownership control costs (Woodcock, Beamish, & Makino, 1994).

When the institutional environment is relatively favorable, but not quite favorable enough for the MNC to accept the highest level of uncertainty associated with embarking on a solo venture in a host country without local partnership, it could choose to opt for an acquisition. In this case, there is less risk due to the security associated with a business project that is already in operation. However, the probability of developing new competitive advantages based on the MNC's own competencies will be lower with an acquisition, the firm will face higher management and ownership control costs, and its potential profits could be lower.

In contrast – except in situations regarding specific assets which the MNC intends to control abroad (Anderson & Gatignon, 1986) – when the quality of a host country is not as favorable and the potential outcome of the investment is subject to environmental uncertainty, the firm may be reluctant to use operation methods that increase management and ownership control, and may prefer less integrated methods like the joint venture, as Kao, Kuo, and Chang (2013) found for the context of family firms. The firm will then share both the risk and the potential profits of the investment with a local partner, despite the higher management and ownership control costs this would imply.

Although international experience conditions managers' attention to different regulative institutions when making decisions regarding international business (Santos-Alvarez & Garcia-Merino, 2012), Anderson and Gatignon (1986) state that the MNC will adopt specific entry mode decisions irrespective of experience. One the one hand, firms with a high level of international experience could use operation methods with a high level of control, in so far as the knowledge resources acquired by experience are available for this investment to be undertaken. On the other hand, firms with a low level of international experience could also use operation methods that allow a high level of control in order to, for example, place acculturated personnel in key positions in the subsidiaries, and thus guarantee management control of the investment. According to Anderson and Gatignon (1986), the firm will be ready to delegate control only when it has greater international experience, reducing in that case the ownership level in its operations abroad. Thus, it can be established that, irrespective of experience:

> Hypothesis 1: The more favorable the firm's perception about the host country's institutional environment, the more likely the firm will be to use a foreign operation method that increases its management and ownership control.

Institutional theory regards uncertainty as something to be controlled by strategic actions (Chen et al., 2009). In conditions of institutional heterogeneity between host and home country, MNCs can consider the actions undertaken by other MNCs which have previously entered the country with the aim of decreasing the risk and uncertainty in the decision making related to FDI. Specifically, a firm will pay more attention to other MNCs from the same home country than to those from other countries (Chan & Makino, 2007; Chen et al., 2009), because the former faced the same level of institutional distance as it does. In this way, the firm will gain cognitive legitimacy by imitating decisions previously taken by a large number of organizations (Huang & Sternquist, 2007). Lu (2002) finds that this mimetism, both in the firm's own sector and beyond, is determinant in the operation method choice when the firm establishes a subsidiary abroad.

Years after the firm's entry to the host country, the perception of uncertainty associated with the institutional gap between the firm's host and home countries will be reduced. In this context, the MNC can probably attend to other institutional factors (e.g., regulative institutions) in order to identify the most suitable level of management and ownership control for its operation in the host country. However, and according to Pedersen, Petersen, and Benito (2002), MNCs entering a foreign country are unlikely to change their operation method with the passing of time. Thus, if an MNC mainly pursues cognitive legitimacy, it is unlikely to change the level of management and ownership control it initially chose since the other MNCs it refers to do not change either. Thus, we can expand Lu's (2002) finding about the importance of mimetic behavior in explaining the operation method choice both at entry time, as Lu finds, and also years after the time of entry.

> Hypothesis 2a: The more frequently a particular level of management and ownership control is used by MNCs in a host country, the more likely a firm will be to mimic that level of control for its operations in that country.

> Hypothesis 2b: The more frequently a particular level of management and ownership control is used by MNCs in a particular sector in a host country, the more likely a firm from the same sector will be to mimic that level of control for its operations in that country.

The internal institutional environment can also determine the foreign operation method choice. Specifically, the intra-organizational relationships in the MNC include the flows of capital, products and knowledge (Gupta & Govindrajan, 1991) and human resources (Boyacigiller, 1990) between the subsidiaries. Research has shown that the exchange of functional activities between the parent company and its subsidiaries seeks to achieve a fit and similarity between the organizational structures, systems and practices used by the different subsidiaries in different countries. In this context, the level of strategic autonomy conceded to the subsidiaries reflects the parent company's intention to reinforce its management practices (DiMaggio & Powell, 1983). Thus, when the parent company wishes to preserve its internally institutionalized practices it increases the pressure to make internal isomorphism dominant (Davis, Desai, & Francis, 2000; Chan & Makino, 2007; Drogendijk & Andersson, 2012), hence exerting a greater control and reducing the autonomy of its subsidiaries.

According to Davis, Desai, and Francis (2000), a parent company that wants to apply management practices that facilitate intra-firm interdependence will prefer a wholly owned operation method, which allows it to maintain a high level of convergence in the internally institutionalized structures, systems and practices. Organizational replication is a much more natural and efficient process when the firm establishes its own greenfield than when it acquires an already-existing company. This is because created subsidiaries are initially conceived and later developed with the aim that they will inherit the specific advantages of the parent company (Harzing, 2002). But if for various reasons the multinational is not particularly interested in its own practices prevailing, the CEO will not feel internal pressure to choose a method involving a high level of management and ownership control. These arguments lead to the following hypothesis:

> Hypothesis 3a: The greater the internal isomorphic pressure in terms of seeking a fit in the organizational structures, systems and practices, the more likely the firm will be to use a foreign operation method that increases its management and ownership control.

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

If the MNC wishes to preserve its internal institutions, it will transfer the knowledge developed within its network (Gupta & Govindrajan, 1991). This transfer and integration of knowledge implies the transfer of a set of routines and procedures (Martin & Salomon, 2003), as well as adapting them to the local context. Thus, the foreign operation methods characterized by different levels of management and ownership control are alternative options the firm can choose for the international transfer of knowledge between the parent company and its subsidiaries (Malhotra, 2003). Full ownership facilitates efficient transfer of knowledge (Martin & Salomon, 2003). This operation method, compared with joint venture or other alliances, better satisfies the need to protect the knowledge transferred, and hence reduces the probability of disseminating the firm's knowledge-based advantages (Hennart & Park, 1993; Belderbos, 2003; Malhotra, 2003; Martin & Salomon, 2003). Likewise, these firms will prefer greenfield to acquisition since acquired firms will bring in routines and new knowledge resources that could make integration of the internally established practices that the multinational intends to transfer more difficult (Hennart & Park, 1993; Belderbos, 2003). The above leads to the following hypothesis:

> Hypothesis 3b: The greater the internal isomorphic pressure in terms of the desire to transfer know-how, the more likely the firm will be to use a foreign operation method that increases its management and ownership control.

Additionally, human resource management and, in particular, the flow of employees (Boyacigiller, 1990; Harzing, 2002; Paik & Sohn, 2004) are basic tools for replicating organizational systems and practices in multinationals. The literature notes a number of advantages of putting expatriate employees in subsidiaries compared with using only local staff (Paik & Sohn, 2004). Expatriate employees have a greater understanding of the corporate priorities and strategies than local staff, are more accepting of the rules established by the parent company, and more committed to corporate goals. Consequently, and following Rosenzweigh and Singh (1991), expatriates are ideally placed to replicate the structures and procedures established by the parent company. They facilitate the transfer of strategic organizational practices not only between the parent and the subsidiary, but also between subsidiaries. Expatriates from the parent company are subject to dual levels of organizational commitment and identification, which puts them in an ideal position to understand the dynamics of institutional duality (Hillman & Wan, 2005). They can identify with both the unique objectives of the subsidiary and also with the overall objectives of the MNC, and are therefore in a better position to understand how to align the interests of both parties. The above could explain why authors associate expatriation with internal isomorphism (Harzing, 2002).

However, expatriate parent company nationals can be costly, in terms of monetary costs and in terms of legitimacy losses for the subsidiary in the local environment (Harzing, 2002). Thus, MNCs have to balance the pressure to employ host country nationals for legitimacy in the local environment against the transference of MNC practices through expatriates to seek internal legitimacy.

With regard to the types of operation methods for the foreign investments, those with the highest level of management and ownership control will create the ideal environment for expatriates to replicate the parent company's procedures. When the MNC looks for internal legitimacy, and therefore makes the decision to transfer practices through expatriates, it chooses to operate with a more integrated operation method. Expatriates may encounter more obstacles to doing the same in acquired companies or joint ventures because they will have to transfer strategic organizational practices to a company that is already operating or to negotiate such practices with their new partners in a joint venture. Indeed, such operation methods are chosen by MNCs when they need to exchange ownership for legitimacy in local markets. Thus, it is more difficult to transfer the routines and organizational practices and also to align subsidiary and parent interests by sending expatriates to these foreign subsidiaries as this can create a sense of hostility (Colakoglu, Tarique, & Caligiuri, 2009), therefore assuming a loss of legitimacy for the company in the local environment.

Hypothesis 3c: The greater the internal isomorphic pressure in terms of seeking internal legitimacy through expatriates, the more likely the firm will be to use a foreign operation method that increases its management and ownership control.

METHODOLOGY

Research context

In order to test the above hypotheses we carried out an empirical analysis of the current level of management and ownership control of the first subsidiary German companies set up in Spain. Specifically, more than 1,000 German firms have invested in Spain over the past century. Germany is consequently one of the five main investor countries – after the United Kingdom, France, Italy and the Netherlands – that provided more than 67.40% of total FDI inflows to Spain between 1993 and September 2011 (Ministry of Economics and Competitiveness, 2011). Although in 2004, the year this research was carried out, Germany was seventh in the ranking of investor countries in Spain, in 2011 it became the fifth biggest investor in this country (with an investment of 0.77 billion euros), after the United Kingdom, France, the United States and Luxembourg.

Primary information from the CEOs of the parent companies in Germany was collected. This is particularly relevant in the current research involving firms originating from the same country that have established operations in the same foreign location, since corporate decisions will depend on managers' perceptions about the importance of Spanish institutional factors. According to these perceptions, it is possible to adopt different decisions with the same institutions (Demirbag, Glaister, & Tatogly, 2008).

Population

The population in this study consisted of German multinational firms that had direct investments in Spain in 2004, regardless of when they entered this country. Specifically, the unit of analysis is the first subsidiary established by those German MNCs that were still operating in Spain at the moment of the empirical study. Those subsidiaries satisfied the condition of having at least five employees in 2004 operating in any industrial or service sector. This population was identified by collecting information from the Chamber of International Commerce in Germany and the German Chamber of Commerce for Spain. The original population consisted of 926 German MNCs that had made at least one investment in Spain.

Data collection and sample representativeness

The empirical evidence was obtained by using a self-administered, structured questionnaire sent by e-mail and post – and sometimes re-sent by fax – to the CEOs of all the German MNCs in the population. The process of collecting the information was carried out in July 2004. Of the 926 CEOs surveyed, 121 responded to the questionnaire, which represents a real response rate of 13.1%, similar to or higher than that of earlier research involving top managers (see Li, Bingham, & Umphress, 2007; García-Cabrera & García-Soto, 2011). In all, 12 responses were rejected in order to maintain internal consistency, leaving a final sample of 109 MNCs with a sampling error of ±6.36%.

With regard to the representativeness of the sample, the mean subsidiary size (in terms of number of employees) in the population of German MNCs with FDI in Spain is 309.1 employees. The mean subsidiary size in the sample of 109 participating MNCs is slightly lower (236.3 employees). The proportion of subsidiaries from industrial sectors in the population is 52.4%, while this proportion rises to 67.9% in the sample and includes industries such as machine manufacturing (14.7%),

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

electronic equipment manufacturing (11%) and vehicle manufacturing (10.1%). The reverse happens for the service sectors. Specifically, the proportion of subsidiaries from service sectors in the population is 47.6%, while this proportion drops to 32.1% in the sample and includes services such as ICT (10.1%), and banking, insurance and consulting (7.3%).

Measures

With regard to the level of management and ownership control, we asked the CEOs about the operation method (joint venture, acquisition, or greenfield) their firms had used to enter the Spanish market and the operation method they were using when the study was carried out. Thus, it could be determined if the operation method used by the MNC had changed at all. In this study the dependent variable used – management and ownership control – allows us to jointly analyze the three foreign operation methods through a single simultaneous equations model.

For the regulative institutions, we measure the institutional quality of the host country in terms of the political-legal and economic incentives to foreign investment. For the former we measured how attractive the investment support, interest rates, and fiscal pressure were for the firm's operations (Demirbag, Glaister, & Tatogly, 2007). For the economic institutions, we measured the availability and quality of both the human resources and the physical infrastructures (Chan, Isobe, & Makino, 2008). Thus, the CEOs assessed the educational level, professional and multilingual training, productivity of human resources, cost of trained human resources and the public administration's commitment to training. As for the physical infrastructures: terrestrial and airport infrastructures, the health service, security and climate were all measured. All these items were adapted from Galán, González-Benito, and Zúñiga-Vicente's (2007) study of location factors. We measured how favorable all these aspects were for the firm's operations at the moment of carrying out the study by using a 5-point Likert scale from 1 = 'very favorable' to 5 = 'very unfavorable' (reverse score).

For the isomorphic pressures of the internal institutional environment, three questions regarding the following were included in the questionnaire: (1) search for fit in the internal structures; (2) firm's desire to transfer know-how to the subsidiary; and (3) firm's intention to seek internal legitimacy through managers' expatriation. In turn, external isomorphic pressures were measured by using six variables specially designed for this work. With that aim, data provided by the firms about their operation method at entry time and the date of their entry in Spain (Lu, 2002) were used. These operation methods at entry time had not been changed throughout all the years the firms had been established in Spain. Thus, these firms' behavior, according to Pedersen, Petersen, and Benito (2002) findings, offers conclusive proof regarding the low probability of an MNC changing its initial foreign operation method. More specifically, we measured general joint venture, acquisition, and greenfield mimetism by the proportion of sampled German firms that had entered Spain with a joint venture, acquisition or greenfield, respectively, before the respondent firm itself entered Spain. In turn, we measured sector joint venture, acquisition and greenfield mimetism using the percentage of German firms from the same sector as the firm that had operated in Spain with a joint venture, acquisition or greenfield, respectively, before the firm itself entered Spain. All these variables define the external cognitive institutional environment.

Finally, as a control variable we measure the MNC size in terms of number of employees.

ANALYSIS AND RESULTS

Description of sample

The size of the subsidiaries in Spain is very diverse, ranging from a minimum of five employees to a maximum of 5,400, as is the size of the MNC (ranging from a minimum of ten employees to a maximum of 417,000). 65.5% of the sample subsidiaries had a turnover of more than 10 million euros in 2004. The German MNCs in the sample had been operating for an average of 70.90 years and had made their first direct investment in Spain on average 19.23 years ago. Specifically, 25% of the MNCs (27 firms) entered the Spanish market through FDI before 1977. The entry process speeded up in the following 9 years (from 1977 to 1986), with the entrance of another 25% of MNCs being registered. In the following 12 years (from 1986 to 1998), 75% of the MNCs taking part in the study had entered Spain. Finally, the remaining 25% of the MNCs entered after 1998.

Scale validity

We carried out a confirmatory factor analysis using structural equations by maximum likelihood. The results show an acceptable goodness of fit, since all the absolute (CMIN = 71.31, $p = 0.19$; RMSEA = 0.03), incremental (NFI = 0.79; TLI = 0.95), and parsimony (CMIN/DF = 1.15) fit measures are within recommended limits. We then calculated the Cronbach's α and the composite reliability coefficient to evaluate the reliability of the scales used. The results show a high reliability for the constructs physical infrastructures ($\alpha = 0.74$; composite reliability = 0.73) and human infrastructures ($\alpha = 0.82$; composite reliability = 0.80), and a moderate reliability for the construct political-legal institutions ($\alpha = 0.64$; composite reliability = 0.67). These results confirm the validity of the scales for the factors measuring the institutional quality of the host country.

Determinants of level of management and ownership control

The descriptive analyses carried out show that 68.8% of the sample firms had established operations in Spain with a high level of management and ownership control (greenfield), 26% opted for a low level of management and ownership control (joint venture), and finally 4.6% opted for an intermediate level of control (acquisition). This small number of firms made it impossible to measure the general and industrial acquisition mimetism, although it was not a problem to keep the dependent variable with three levels.

Table 2 shows the means and standard deviations of the independent, dependent, and control variables in the study, and the correlations between them. The joint influences proposed in the theoretical model were determined using a simultaneous equations analysis by maximum likelihood, which allowed us to test the proposed hypotheses (see Figure 1).

Although our sample is not very large, due to the difficulty in convincing CEOs to participate in this kind of study (see Li, Bingham, & Umphress, 2007), the relations shown in the global model (Figure 1) are stable and we expect them to remain so when the number of observed cases rises. This stability is supported by the estimation of partial models we made, which provide a better sample size to variables ratio (N/v) than global models, as well as a simplified SEM including only those constructs that had previously shown a significant effect on management and ownership control. This simplified model shows a high goodness of fit (CMIN = 101.67, $p = 0.07$; RMSEA = 0.04; NFI = 0.91; TLI = 0.96; CMIN/$df = 1.24$) and confirms the effects identified. The literature argues that five cases per variable are sufficient for normal and elliptical distributions, and 10 cases per variable for other distributions (e.g., Bentler & Chou, 1987). Although the N/v ratio is at the bottom edge of this interval for the global model, it is well within the recommended limits for the simplified model.

The estimated global model allows us to confirm the proposed hypotheses in the majority of cases. First, the results show that the quality of political-legal institutions does not have a significant influence on the choice of a particular level of management and ownership control. In contrast, the more positive the perceived quality of human and physical infrastructures in the host institutional environment, the

Table 2. Correlations, means and standard deviations

	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20	21	22
Dependent variable																						
1. Management and ownership control	1																					
Independent variables																						
2. Greenfield mimetism	0.961***	1																				
3. Joint-venture mimetism	−0.953***	−0.863***	1																			
4. Sector greenfield mimetism	0.835***	0.858***	−0.744***	1																		
5. Sector joint-venture mimetism	−0.712***	−0.629***	0.730***	−0.526***	1																	
6. Internal structure fit	0.025	0.003	−0.041	0.020	−0.049	1																
7. Know-how transfer	−0.018	−0.017	−0.003	0.025	0.063	0.092	1															
8. Legitimacy through managers' expatriation	0.169†	0.210*	−0.148	0.177†	−0.237*	0.074	−0.008	1														
9. Investment support	0.033	0.032	−0.033	0.066	0.155	0.096	0.149	−0.098	1													
10. Interest rate	−0.039	−0.018	0.028	0.010	0.178	0.250*	0.006	0.029	0.136	1												
11. Fiscal pressure	−0.003	0.057	0.025	0.073	0.258*	0.113	0.047	−0.100	0.462***	0.473***	1											
12. Educational level	0.144	0.182†	−0.190†	0.295*	−0.012	0.319**	0.051	−0.060	0.284*	0.391***	0.530***	1										
13. Professional training	0.288**	0.302**	−0.298**	0.340**	−0.135	0.219*	0.188†	−0.090	0.364**	0.340**	0.514***	0.634***	1									
14. Multilingual training	0.143	0.221*	−0.130	0.327**	0.043	0.159	0.006	−0.021	0.138	0.268*	0.419***	0.418***	0.259*	1								
15. HR productivity	0.033	0.082	−0.062	0.133	0.098	0.207†	0.040	−0.005	0.259*	0.270*	0.419***	0.534***	0.454***	0.329**	1							
16. PA commitment	0.259*	0.225*	−0.286**	0.293*	−0.025	0.173	0.009	−0.027	0.247*	0.269*	0.424***	0.449***	0.418***	0.218*	0.288**	1						
17. Trained HR cost	0.165†	0.166†	−0.159	0.277**	0.043	0.234*	0.013	−0.177	0.147	0.193	0.444***	0.440***	0.371***	0.453***	0.417***	0.358**	1					
18. Infrastructure	0.050	0.053	−0.089	0.150	−0.007	0.108	−0.067	−0.055	0.163	0.147	0.020	−0.075	−0.069	0.148	−0.063	0.045	0.146	1				
19. Health service	0.095	0.118	−0.166	0.162	−0.028	0.149	−0.007	0.118	0.199	0.081	0.209†	0.110	0.077	0.265*	0.215*	0.149	0.145	0.378***	1			
20. Security	0.040	0.010	−0.093	0.088	0.041	0.199†	0.091	−0.139	0.400**	0.051	0.409***	0.362**	0.216†	0.212†	0.226*	0.249*	0.103	0.251*	0.517***	1		
21. Climate	0.019	0.026	−0.069	0.104	0.165	0.102	0.116	−0.232*	0.182	0.096	0.223†	0.080	0.009	0.303**	0.141	0.132	0.253*	0.447***	0.421***	0.358**	1	
Control variable																						
22. MNC size (ln)	−0.054	−0.067	0.042	−0.020	0.284**	0.041	0.159	−0.364***	0.266*	0.233*	0.502**	0.295**	0.349**	0.179†	0.232*	0.263*	0.248*	−0.051	0.098	0.338**	0.110	1
Mean	2.42	0.46	0.07	0.44	0.07	0.87	0.81	1.59	2.85	2.89	2.90	3.40	3.47	3.41	3.02	3.37	2.30	2.25	2.69	2.62	1.96	6.96
SD	0.88	0.31	0.12	0.38	0.18	0.34	0.39	0.50	1.08	0.84	1.10	0.84	0.79	0.90	0.80	0.85	0.85	0.72	0.74	0.72	0.78	2.40

***$p < .001$; **$p < .01$; *$p < .05$; †$p < .1$

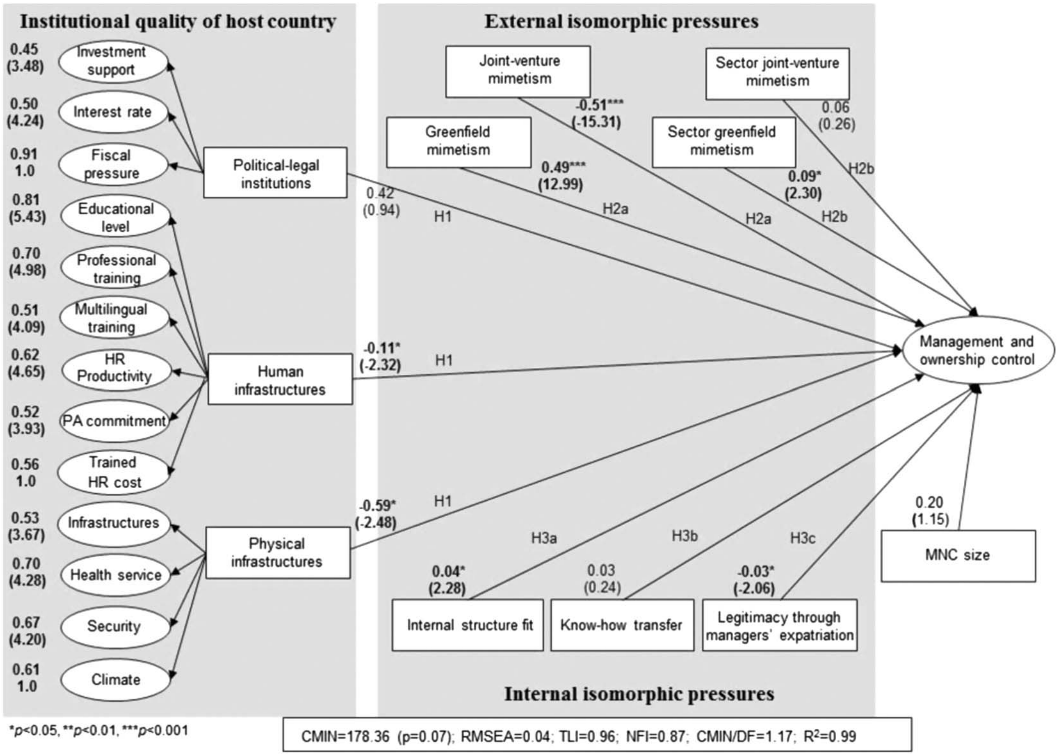

FIGURE 1. INSTITUTIONAL ANTECEDENTS OF LEVEL OF MANAGEMENT AND OWNERSHIP CONTROL

more likely the firm is to opt for a higher level of management and ownership control for its subsidiaries there. Thus, we can accept Hypothesis 1 partially.

Second, the results show that the more frequently German firms previously operating in Spain had chosen a level of management and ownership control (greenfield or joint venture), the more likely the respondent firm would be to adopt the same level of control with the aim of obtaining cognitive legitimacy. These results confirm Hypothesis 2a. With regard to the relation between the respondent firm's choice of management and ownership control and the previous choices of the firms from the same sector, the results show that only when firms from the same sector have previously chosen high levels of management and ownership control, does the respondent firm choose the same level of control for its subsidiaries. The non-significance of sector mimetism for the joint venture could be due to the low number of firms from the same sector opting to operate in Spain using a joint venture, since the sectorial variability was substantial. All this allows us to accept Hypothesis 2b partially.

With regard to internal isomorphism in terms of seeking cognitive legitimacy, the results show that the greater the sample firms' desire to achieve a fit in the organizational structures, systems, and practices, the greater their propensity to raise the level of management and ownership control in their subsidiaries. Thus, we can accept Hypothesis 3a. In contrast, the firm's desire to make internal isomorphism prevail through transfer of know-how to its subsidiary does not necessarily imply the adoption of a high level of control over them, so we must reject Hypothesis 3b. Finally, and in contrast to what Hypothesis 3c postulates, the results indicate that the stronger the parent company's intention to seek legitimacy through expatriates, the lower its propensity to use a foreign operation method that increases management and ownership control.

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

To summarize, the joint influence of the regulative and cognitive dimensions of the institutional environment is able to explain 99% of the management and ownership control the German firms choose in order to continue their operations in Spain.

DISCUSSION

The results concerning the influence of the regulative institutions allow us to suggest that the more favorable the managers' perception regarding the quality of the human and physical infrastructures, the greater their propensity to adopt a foreign operation method that raises the level of management and ownership control. However, the perceived quality of the political-legal institutions does not have a significant influence on the dependent variable. This result may have the following explanation. In 2004, Germany and Spain were subject to common regulations in terms of macro-economic discipline because they both belong to the European Union. Thus, it is highly probable that the respondents did not perceive significant differences in fiscal pressure, interest rates or official support and subsidies between the two countries. According to Eden and Miller (2004: 20), 'Within developed countries, regulatory frameworks have become more homogeneous due to globalization pressures, regional integration schemes and international institutions.' However, although in the current work we do not find a direct effect of political-legal institutions on the operation method choice, government regulations could indirectly affect this choice (Eden & Miller, 2004). For example, the policy of supporting foreign investment in the host country could create an open business culture that is prepared to take part in shared investments. This could encourage foreign investors to choose operation methods with low management and ownership control.

With regard to the cognitive dimension of the institutional environment, the results obtained here confirm the importance of external mimetism in the choice of the level of management and ownership control, above all in general terms and to a lesser extent for firms operating in the same sector. Internal mimetism, for its part, has less influence on the choice of the operation method. Thus, although the search for a fit in the internal structures explains the choice of a higher level of management and ownership control, the firm's desire to transfer know-how does not affect that choice. Nevertheless, the desire to transfer know-how is measured using a single variable that does not allow us to measure either the type of knowledge the firm wishes to transfer or the intensity of the transfer. All firms transfer some knowledge to their subsidiaries, so the variable used here may not be measuring the internal isomorphism to its full extent.

The firm's intention to seek legitimacy through expatriates has a negative effect on the level of management and ownership control chosen, precisely the opposite result to what was expected. This result means that the variable analyzed can be understood as an indicator of internal isomorphism in cases where external isomorphism is prevalent and the environment imposes the foreign operation method on the firm. For example, when the external institutional environment recommends entering the foreign market through a joint venture, and the multinational seeks to balance internal and external isomorphic pressures, it will enter that market using a joint venture – thereby legitimizing its activity by imitating the behaviors of other firms – but at the same time the firm will send managerial representation to the subsidiary in order to obtain internal legitimacy. In this case, the constraints imposed by the environment and those created by the firm itself combine so as to legitimize the decision adopted.

The estimated model allows us to reach some conclusions about the relative weight of the different explanatory variables in explaining the dependent variable. The variables measuring the general external isomorphism have the most influence, followed by the institutional quality of the host country, particularly the physical infrastructures. The variables measuring internal isomorphism, external sector isomorphism, and the remaining host country variables have less weight.

CONCLUSIONS

The current work makes several relevant theoretical contributions. First, we find that the operation method in place years after entering a country mainly depends on the external mimetic pressures that the MNC faced at time of entry. This historic decision is prevalent over the manager's present perception about the quality of the host country institutions and the firm's intention to retain its institutional practices. This result contradicts previous research, according to which internal isomorphism has a greater weight than external isomorphism in the operation method choice at entry time (e.g., Davis, Desai, & Francis, 2000; Chan & Makino, 2007). When the MNC chooses a certain level of management and ownership control years after the time of entry, the strong inertia within the MNC declines. Thus, our study expands on previous conclusions about the influence of external mimetic behavior on the operation method choice (e.g., Davis, Desai, & Francis, 2000; Lu, 2002; Chen et al., 2009) not only at time of entry, but also years afterwards. The low importance of sector mimetism compared to general mimetism is likely caused by the fact that mimetism mainly refers to the tendency to imitate the structures and practices that a large number of organizations have adopted. Consequently, the firm is more likely to adopt a particular level of management and ownership control when the number of actors providing a point of reference to legitimize that decision is larger. General mimetism will always provide more points of reference than sector mimetism since a larger number of actors are involved.

Second, our work also allows us to draw conclusions about the capacity of the regulative institutions to legitimize the MNC's external mimetic behavior years after time of entry. Given firms analyzed have used the same operation method since entering Spain, we suggest that a favorable perception of the institutional quality provided by regulative institutions enforces the decision to maintain more integrated operation methods compared with the cases where this perception is unfavorable, which justifies maintaining operation methods with less management and ownership control.

Moreover, our integrated model including regulative institutions and mimetic variables allows us to conclude that the decision maker considers the latter more than the former, maintaining the operation method initially chosen to guarantee efficient transactions in the host country. Being an integrated model, it reveals that in the presence of one type of institution (e.g., cognitive institutions), the impact of other institutions that are shown to have had an influence on the operation method choice in previous research – for example, regulative institutions (Davis, Desai, & Francis, 2000; Meyer et al., 2009) – weakens.

Third, our results suggest that expatriation allows the MNC to reconcile the existence of internal mimetic pressures with the external pressures, even when these recommend a low level of management and ownership control over the foreign operations.

This work also offers two methodological contributions. First, it introduces a new variable that combines and allows researchers to measure the single, simultaneous choice of ownership mode and establishment mode. Specifically, this variable distinguishes between different levels of management and ownership control associated with the three categories into which the foreign operation method can be classified: joint venture, wholly-owned acquisition, and wholly owned greenfield.

Second, manager's perceptions were used to measure both the regulative and the internal cognitive environment. According to new institutionalism, the decision maker's choice will be conditioned not only by the institutions themselves, but also by the manager's perception about the pressures these institutions exert on their firm's choices. Therefore, we go beyond numerous studies that use proxies to measure institutional pressures (e.g., Lu, 2002).

The current work has a number of practical implications. Its findings could prove useful for policymakers in host-country governments, and for the managers of both multinationals and local firms. Thus, the results suggest that policymakers should investigate the motives driving foreign firms

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

to adopt a mimetic behavior when venturing in the local market. When these motives have something to do with the perception of the host country (e.g., uncertainty in the market), the host government should design ways to modify these perceptions and encourage firms to adopt the operation methods that are most beneficial for its country. Similarly, host governments can also help to reinforce the quality of those institutions that investors consider important when conducting operations in their countries.

In turn, and given the predominance of the cognitive institutional pressures when deciding on the foreign operation method, multinationals should be aware of the opportunity costs they will face if they do not also base their decisions on other institutional variables that shape decision risk, particularly when they have the resources to adopt efficient and legitimate foreign operation methods. Successfully implanting a subsidiary in a foreign country will be beneficial for the MNC. However, the important question is whether the MNC can obtain the maximum possible return.

Another practical implication is related to HR practices in MNCs, particularly expatriation. Sending expatriate staff to foreign subsidiaries would play an important role in allowing the MNC to comply with internal mimetic pressures when the external institutions advise either high or low levels of management and ownership control.

LIMITATIONS AND RECOMMENDATIONS FOR FUTURE RESEARCH

The first limitation of this work lies in its limited context: Germany and Spain, both developed countries belonging to the same economic bloc. The context may have determined the importance of external mimetism in choosing a level of management and ownership control, as well as the low relevance of the regulative institutions in that choice. For example, these results should not be generalized without first examining whether the normative institutions (home country's cultural values) are also determining the sample firms' tendency to imitate (Lu, 2002), or whether these institutions in the host country (e.g., business openness to foreignness) condition investors' attention to regulative institutions. We would therefore recommend that researchers examine the relationship between operation method choice and the different institutional dimensions in more detail, carrying out comparative cross-cultural studies that involve even countries with a different level of development.

Second, although this study shows the tendency of most of the firms in the sample to base their actions on external mimetism, there is a small group of firms that adopt their decisions based on other premises – for example, internal isomorphism and/or quality of the institutional environment. The conditions that cause such firms to digress from the dominant logic identified in this research should be subject to analysis. In this sense, the literature could benefit from qualitative research – for instance the case studies of such firms – in order to identify those firms' and managers' characteristics that encourage managers to attend to cognitive or regulative (or both) pressures within the decision-making process.

Third, the model proposed here does not include organizational variables such as the size of the investment in the destination country. Nor does the proposed model include variables relating to the CEOs such as personality traits, demographic profile, professional background or management ability. All these variables could conceivably have a direct effect on the choice of a particular level of management and ownership control. Likewise, the characteristics of the decision maker may also affect their perceptions about the institutional quality of the host country. We would consequently recommend examining the variables relating to the organization and the decision maker to test their potential role in mediating or moderating the effect that the institutional quality of a host country and external/internal isomorphic pressures have on the choice of a particular level of management and ownership control.

ACKNOWLEDGEMENT

The authors acknowledge the Editor-in Chief of the Journal of Management and Organization, Peter Galvin, and two anonymous reviewers for their helpful comments and recommendations as well as for their constructive criticism of the manuscript. The authors also wish acknowledge the informative support received from the Chamber of International Commerce in Germany and the German Chamber of Commerce for Spain.

References

Anand, J., & Delios, A. (2002). Absolute and relative resources as determinants of international acquisitions. *Strategic Management Journal*, *23*, 119–134.

Anderson, E., & Gatignon, H. (1986). Modes of foreign entry: A transaction cost analysis and propositions. *Journal of International Business Studies*, *17*(3), 1–26.

Beamish, P. W., & Banks, J. C. (1987). Equity joint ventures and the theory of the multinational enterprise. *Journal of International Business Studies*, *18*(2), 1–16.

Belderbos, R. (2003). Entry mode, organizational learning, and R&D in foreign affiliates: Evidence from Japanese firms. *Strategic Management Journal*, *24*, 235–259.

Benito, G., Pedersen, T., & Petersen, B. (1999). Foreign operation methods and switching costs: conceptual issues and possible effects. *Scandinavian Journal of Management*, *15*, 213–229.

Bentler, P. M., & Chou, C. (1987). Practical issues in structural modeling. *Sociological Methods and Research*, *16*, 78–117.

Boyacigiller, N. (1990). The role of expatriates in the management of interdependence, complexity and risk in multinational corporations. *Journal of International Business Studies*, *21*(3), 357–381.

Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies*, *33*(2), 203–221.

Brouthers, K. D., Brouthers, L. E., & Werner, S. (1999). Is Dunning's Eclectic Framework descriptive or normative? *Journal of International Business Studies*, *30*(4), 831–844.

Brouthers, K. D., Brouthers, L. E., & Werner, S. (2008). Resource-based advantages in an international context. *Journal of Management*, *34*(2), 189–217.

Brouthers, K. D., & Hennart, J. F. (2007). Boundaries of the firm: Insights form international entry mode research. *Journal of Management*, *33*(3), 395–425.

Brown, R. S. (2012). The role of legitimacy for the survival of new firms. *Journal of Management & Organization*, *18*, 412–427.

Caballero, G., & Kingston, C. (2005). Cultural change, institutional dynamics and cognitive science: Toward a multidisciplinary comprehension of economic development. *Revista de Economía Institucional*, *7*(13), 1–7.

Canabal, A., & White, G. O. III (2008). Entry mode research: Past and future. *International Business Review*, *17*, 267–284.

Chan, C. M., Isobe, T., & Makino, S. (2008). Which country matters? Institutional development and foreign affiliate performance. *Strategic Management Journal*, *29*, 1179–1205.

Chan, C. M., & Makino, S. (2007). Legitimacy and multilevel institutional environments: Implications for foreign subsidiary ownership structure. *Journal of International Business Studies*, *38*(4), 621–638.

Chen, Y. R., Yang, C., Hsu, S. M., & Wang, Y. D. (2009). Entry mode choice in China's regional distribution markets: Institution vs. transaction costs perspectives. *Industrial Marketing Management*, *38*, 702–713.

Cheng, H. L., & Yu, C. M. J. (2008). Institutional pressures and initiation of internationalization: Evidence from Taiwanese small- and medium-sized enterprises. *International Business Review*, *17*, 331–348.

Child, J., & Yan, Y. (1999). Investment and control in international joint ventures. *Journal of World Business*, *34*(1), 3–15.

Colakoglu, S., Tarique, I., & Caligiuri, P. (2009). Towards a conceptual framework for the relationship between subsidiary staffing strategy and subsidiary performance. *The International Journal of Human Resource Management*, *20*(6), 1291–1308.

Davis, P. S., Desai, A. B., & Francis, J. D. (2000). Mode of international entry: an isomorphism perspective. *Journal of International Business Studies*, *31*(2), 239–258.

https://doi.org/10.1017/jmo.2014.52 Published online by Cambridge University Press

Delios, A., & Beamish, P. W. (1999). Ownership strategy of Japanese firms: Transactional, institutional, and experience influences. *Strategic Management Journal*, *20*, 915–933.

Demirbag, M., Glaister, K. W., & Tatogly, E. (2007). Factors affecting perceptions of the choice between acquisition and greenfield entry: The case of Western FDI in an emerging market. *Management International Review*, *48*(1), 5–38.

Demirbag, M., Glaister, K. W., & Tatogly, E. (2008). Institutional and transaction cost influences on MNEs' ownership strategies of their affiliates: Evidence from an emerging market. *Journal of World Business*, *42*, 418–434.

Dikova, D., & van Witteloostuijn, A. (2007). Foreign direct investment mode choice: Entry and establishment modes in transition economies. *Journal of International Business Studies*, *38*(6), 1013–1033.

DiMaggio, P. J., & Powell, W. W. (1983). The iron cage revisited: Institutional isomorphism and collective rationality in organizational fields. *American Sociological Reviews*, *48*, 147–160.

Drogendijk, R., & Andersson, U. (2012). Relationship development in Greenfield expansions. *International Business Review*, *22*(2), 381–391.

Eden, L., & Miller, S. R. (2004). Distance matters: liability of foreignness, institutional distance and ownership strategy. *Advances in International Management Book Series*, *16*, 187–221.

Ekeledo, I., & Sivakumar, K. (2004). International market entry mode strategies of manufacturing firms and service firms: A resource – based perspective. *International Marketing Review*, *21*(1), 68–101.

Galán, J. I., González-Benito, J., & Zúñiga-Vicente, J. A. (2007). Factors determining the location decisions of Spanish MNEs: An analysis based on the investment development path. *Journal of International Business Studies*, *38*(6), 975–997.

García-Cabrera, A. M., & García-Soto, M. G. (2011). MNC commitment, OCB role definition and intent to leave in subsidiary top managers: The moderating effect of uncertainty avoidance values. *International Journal of Intercultural Relations*, *35*(5), 641–657.

Gupta, A., & Govindrajan, V. (1991). Knowledge flows and the structure of control within multinational corporations. *Academy of Management Review*, *16*(4), 768–792.

Harzing, A. W. (2002). Acquisitions versus Greenfield investments: International strategy and management of entry modes. *Strategic Management Journal*, *23*, 211–227.

Haveman, H. (1993). Follow the leader: Mimetic isomorphism and entry into new markets. *Administrative Science Quarterly*, *38*, 593–627.

Hennart, J. F. (1988). A transaction costs theory of equity joint ventures. *Strategic Management Journal*, *9*, 361–374.

Hennart, J. F., & Park, R. (1993). Greenfield vs. acquisition: The strategy of Japanese investors in the United States. *Management Science*, *39*(9), 1054–1070.

Hennart, J. F., & Reddy, S. (1997). The choice between mergers/acquisitions and joint ventures: The case of Japanese investors in the United States. *Strategic Management Journal*, *18*, 1–12.

Hillman, A. J., & Wan, P. W. (2005). The determinants of MNE subsidiaries' political strategies: Evidence of institutional duality. *Journal of International Business Studies*, *36*, 322–340.

Huang, Y., & Sternquist, B. (2007). Retailers' foreign market entry decisions: An institutional perspective. *International Business Review*, *16*, 613–629.

Ingram, P., & Silverman, B. (2002). Introduction. In P. Ingram & B. Silverman (Eds.), *The new institutionalisms in strategic management* (pp. 1–30). Amsterdam: Elsevier.

Jakobsen, K., & Meyer, K. (2008). Partial acquisitions: The overlooked entry mode. In J. H. Dunning & P. Gugler (Eds.), *Progress in International Business Research* (Volume 2, pp. 203–226). Oxford, UK: Elsevier.

Kao, M. S., Kuo, A., & Chang, Y. C. (2013). How family control influences FDI entry mode choice. *Journal of Management & Organization*, *19*, 367–385.

Kogut, B., & Singh, H. (1988). The effect of national culture on the choice of entry mode. *Journal of International Business Studies*, *19*(3), 411–432.

Kostova, T., & Zaheer, S. (1999). Organizational legitimacy under conditions of complexity: The case of the multinational enterprise. *Academy of Management Review*, *24*, 64–81.

Li, H., Bingham, J. B., & Umphress, E. E. (2007). Fairness from the top: Perceived procedural justice and collaborative problem solving in new product development. *Organization Science*, *18*(2), 200–216.

Lu, J. W. (2002). Intra and Inter-organizational imitative behaviour: Institutional influences on Japanese Firms' entry mode choice. *Journal of International Business Studies*, *33*(1), 19–37.

Malhotra, N. (2003). The nature of knowledge and the entry mode decision. *Organization Studies*, *24*(6), 935–959.
Martin, X., & Salomon, R. (2003). Knowledge transfer capacity and its implications for the theory of the multinational corporation. *Journal of International Business Studies*, *34*, 356–373.
Meyer, K., & Nguyen, V. C. (2005). Foreign investment strategies and sub-national institutions in emerging markets: Evidence from Vietnam. *Journal of Management Studies*, *42*, 63–93.
Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. *Strategic Management Journal*, *30*, 61–80.
Ministry of Economics and Competitiveness (2011). Foreign direct investment in Spain. Retrieved from http://datainvex.comercio.es/principal_invex.aspx.
Nitsch, D., Beamish, P., & Makino, S. (1996). Entry mode and performance of Japanese FDI in Western Europe. *Management International Review*, *36*(1), 27–43.
North, D. (1990). *Institutions, institutional change, and economic performance*. Cambridge: Cambridge University Press.
Paik, Y., & Sohn, J. D. (2004). Expatriate managers and MNC's ability to control international subsidiaries: The case of Japanese MNCs. *Journal of World Business*, *39*, 61–71.
Pedersen, T., Petersen, B., & Benito, G. R. G. (2002). Change of foreign operation method: Impetus and switching costs. *International Business Review*, *11*, 325–345.
Petersen, B., & Welch, L. (2002). Foreign operation mode combinations and internationalization. *Journal of Business Research*, *55*, 157–162.
Raff, H., Ryan, M., & Stähler, F. (2009). The choice of market entry mode: Greenfield investment, M&A and joint venture. *International Review of Economics and Finance*, *18*, 3–10.
Rosenzweig, P. M., & Singh, J. V. (1991). Organizational environment and the multinational entreprise. *Academy of Management Review*, *16*, 340–361.
Santos-Alvarez, M. V., & Garcia-Merino, M. T. (2012). Information interests and exporting: The Spanish natural stone industry. *Journal of Management & Organization*, *18*, 845–857.
Scott, W. R. (1995). *Institutions and organizations* (2nd ed.). Thousand Oaks, CA: Sage.
Slangen, A., & Hennart, J. F. (2007). Greenfield or acquisition entry: A review of the empirical foreign establishment mode literature. *Journal of International Management*, *13*, 403–429.
Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. *Academy of Management Review*, *20*(3), 571–610.
Tracey, P., & Phillips, N. (2011). Entrepreneurship in emerging markets: Strategies for new venture creation in uncertain institutional contexts. *Management International Review*, *51*(1), 23–29.
Woodcock, C. P., Beamish, P. W., & Makino, S. (1994). Ownership-based entry mode strategies and international performance. *Journal of International Business Studies*, *25*(2), 253–273.
Yiu, D., & Makino, S. P. (2002). The choice between joint venture and wholly owned subsidiary: An institutional perspective. *Organization Science*, *13*(6), 667–683.