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# Planned Marketing Adaptation and Multinationals' Choices Between Acquisitions and Greenfields

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## ABSTRACT

*International marketing studies have extensively examined the antecedents of firms' marketing standardization/ adaptation decisions. However, it is unclear whether such decisions, once planned, codetermine the choice between buying and building foreign subsidiaries. Analyzing a sample of 150 foreign entries by Dutch firms, the authors find that the level of marketing adaptation planned for a wholly owned subsidiary is positively related to the likelihood that the subsidiary will be established through an acquisition rather than through a greenfield investment. Moreover, the authors find substantial evidence that this positive relationship is stronger for firms that (1) are establishing relatively larger subsidiaries, (2) have less experience with the industry entered, or (3) are entering less developed countries. The findings show that firms pursuing higher levels of marketing adaptation assign more value to the marketing adaptation advantages of acquisitions over greenfields, especially if the risks associated with implementing the planned adaptation level are high. In addition, firms typically strive for a fit between their international marketing strategy and their mode of foreign establishment.*

**Keywords:** acquisitions, establishment mode choice, greenfields, planned marketing adaptation

A long-standing debate in international marketing research has been whether multinational enterprises (MNEs) should standardize their international marketing activities because of the increased homogeneity of national markets or whether they should instead adapt these activities to local conditions because of enduring cultural, economic, and regulatory differences between nations (for reviews, see Cavusgil, Zou, and Naidu 1993; Schmid and Kotulla 2011). In an attempt to resolve this heated debate, scholars have recently developed a synthesizing perspective arguing that marketing standardization/adaptation decisions are not binary choices but rather choices along a continuum of *levels* of adaptation (Cavusgil, Zou, and Naidu 1993; Gabrielsson, Gabrielsson, and Seppälä 2012; Ryans, Griffith, and White 2003; Schilke, Reimann, and Thomas 2009; Shoham et al. 2008; Taylor and Okazaki 2006). This perspective has served as the basis for many studies, most of which have focused on identifying the determinants of the level of marketing adaptation that MNEs pursue in foreign nations (for reviews, see Ryans, Griffith, and White 2003; Schmid and Kotulla 2011; Theodosiou and Leonidou 2003).

Although these studies have substantially increased our understanding of the antecedents of MNEs' international marketing strategies, they have not explored whether such strategies influence the mode through which MNEs choose to become active in a foreign country. The few studies that have explored this issue have

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shown that marketing strategy and entry mode are closely linked. They have found that, compared with MNEs aiming for low marketing adaptation, those aiming for high adaptation are more likely to choose joint ventures (JVs) with local firms over wholly owned subsidiaries (WOSs) (Özsomer, Bodur, and Cavusgil 1991; Rau and Preble 1987). Such JVs allow adaptive MNEs to gain access to their partners' local market knowledge and brand names (Griffith, Zeybek, and O'Brien 2001; Tsang, Nguyen, and Erramilli 2004), thereby facilitating local marketing adaptation.

However, although MNEs aiming for such adaptation may be relatively likely to choose JV entry, they often still choose WOSs because JVs entail a high risk that crucial proprietary knowledge might leak to the JV partner (Brouthers 2002; Ekeledo and Sivakumar 1998; Malhotra, Agarwal, and Ulgado 2003). Indeed, many local market-oriented JVs, especially those in less developed countries, are second-best solutions that are only chosen when WOSs are legally prohibited (Kale and Anand 2006). This raises the question whether MNEs establishing WOSs also have an entry option at their disposal that facilitates local marketing adaptation. In this article, we argue that they do: MNEs opting for WOSs can facilitate local marketing adaptation through their establishment mode choice, in particular, by choosing full acquisitions instead of wholly owned greenfield start-ups. Like JVs (which include both greenfield JVs and partial acquisitions), full acquisitions typically also come with local market knowledge and brand names, whereas wholly owned greenfields do not (Anand and Delios 1997, 2002; Chen and Zeng 2004; Hennart and Park 1993); thus, full acquisitions have marketing adaptation advantages over wholly owned greenfields. All else being equal, MNE parent executives will consider these advantages more valuable if they want a higher level of local marketing adaptation. Therefore, we hypothesize that the planned level of local marketing adaptation is positively related to the likelihood that WOSs will be established through acquisitions rather than through greenfields.

We also expect that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry will depend on the perceived risks associated with implementing the planned adaptation level. The higher these perceived risks, the keener MNE parent executives will be to limit them, and the more these executives will value the marketing adaptation advantages of acquisitions at a given planned adaptation level, which will cause that level to further stimulate

acquisition entry. We propose that the perceived risks associated with implementing the planned adaptation level stem from three factors: the size of the prospective WOS relative to that of its MNE parent, the parent's experience with the subsidiary's industry, and the economic development level of the country entered. The greater the prospective subsidiary's relative size, the greater the perceived risks associated with implementing the planned adaptation level and, thus, the higher the perceived value of the marketing adaptation advantages of acquisitions at that planned adaptation level. We therefore hypothesize that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry is even stronger for prospective WOSs whose size is relatively larger. Likewise, the lower the MNE parent's experience with the subsidiary's industry and the less developed the country of entry, the greater the perceived risks associated with implementing the planned adaptation level and, thus, the higher the perceived value of the marketing adaptation advantages of acquisitions at that planned adaptation level. Therefore, we hypothesize that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry is even stronger for both MNE parents with less experience in the industry entered and those entering less developed countries.

To test these hypotheses, we analyze a sample of 150 WOSs built or acquired by Dutch MNEs in 32 foreign countries. We exclude JVs to rule out the possibility that they drive the effect of the planned level of marketing adaptation given that they also have marketing adaptation advantages and are more frequently created through acquisitions than through greenfields (Brouthers and Dikova 2010; Slangen 2011; Slangen and Van Tulder 2009). We obtain substantial and robust support for our hypotheses, confirming that MNEs pursuing higher marketing adaptation levels assign more value to the marketing adaptation advantages of acquisitions, especially if the risks associated with implementing the planned adaptation level are deemed high.

Overall, our interdisciplinary approach of integrating standardization/adaptation and establishment mode research makes clear that, in general, managers strive for a fit between their preferred level of marketing adaptation and their choice of establishment mode. This insight adds to recent studies emphasizing the importance of fitting foreign marketing strategies to the external and internal context in which they will be implemented (Hultman, Robson, and Katsikeas 2009; Katsikeas, Samiee, and Theodosiou 2006). Specifically,

our findings suggest that after MNEs have decided on their marketing strategy by fitting it to the context, they subsequently fit their mode of foreign establishment to the chosen strategy.

The current study also contributes to the establishment mode researach. Specifically, whereas prior studies have argued that acquisitions often come with local brands and market knowledge (Anand and Delios 1997, 2002; Chen and Zeng 2004; Hennart and Park 1993), we show that the perceived value of these assets, as reflected in the likelihood of acquisition entry, is a function of the perceived need for local marketing adaptation. Furthermore, whereas prior establishment mode studies have explored the direct effects of a prospective subsidiary's relative size, its parent's industry experience, and the host country's development level (Brouthers and Brouthers 2000; Brouthers and Dikova 2010; Chen and Zeng 2004; Hennart and Park 1993; Larimo 2003; Slangen and Hennart 2008), we reveal that these three factors play an important moderating role in the relationship between planned marketing adaptation and mode choices for WOSs. Overall, our findings thus also enrich the understanding of factors that drive MNEs' establishment mode choices.

## THEORY AND HYPOTHESES
### Local Marketing Adaptation and Establishment Mode Choice

The successful sale of products in a foreign country typically requires at least some local adaptation of an MNE's marketing activities, in that some or all of the MNE's "activities related to informing current and potential customers of the product and inducing them to purchase it" (Kim, Park, and Prescott 2003, p. 332) need to be tailored (at least to some degree) to locally prevailing economic, regulatory, or cultural conditions (Albaum and Tse 2001; Calantone et al. 2004; Cavusgil, Zou, and Naidu 1993; Cayla and Peñaloza 2012; Magnusson et al. 2013). According to Steenkamp and Ter Hofstede (2002, p. 186), even well-known MNEs selling fairly standardized products (e.g., Coca-Cola, McDonald's, Sony, British Airways, IKEA, Toyota, Levi-Strauss) "cannot serve the entire heterogeneous population of (a region of) the world with fully standardized marketing strategies." The exact level of marketing adaptation that an MNE pursues reflects its overall international strategy to a large extent (Zou and Cavusgil 2002); in general, MNEs with a "global" strategy pursue low to medium levels of marketing adaptation in host countries

to realize economies of scale, whereas those with a "transnational" or "multidomestic" strategy typically pursue relatively high marketing adaptation levels abroad to be locally responsive (Bartlett and Ghoshal 1989; Harzing 2000). Whereas the *level* of marketing adaptation that an MNE pursues is often similar across countries, the exact *form* that such adaptation takes (i.e., its content) is often country specific because of differences in countries' economic environments and formal and informal institutions (Hultman, Robson, and Katsikeas 2009; Kostova and Zaheer 1999). Even in today's semiglobalized world (Ghemawat 2003), countries still differ from each other in terms of their regulations, competitive dynamics, and their citizens' norms, values, and interpretive schemes (Ghemawat 2001; Kostova and Zaheer 1999). As a result, MNEs pursuing a given level of marketing adaptation (whether high or low) often need to give country-specific substance to such adaptation.

To enable foreign subsidiaries to adapt their marketing activities to the local context to the desired degree, MNEs need local market knowledge (Lord and Ranft 2000). Such knowledge refers to expertise about the cultural, economic, and legal characteristics of an MNE subsidiary's product-market segment—in particular, expertise about desired product features, effective promotion practices, and formal and informal rules of local competition, among others (Lord and Ranft 2000; Solberg 2002). This knowledge is, to a large extent, tacit and experiential, meaning that it usually cannot be purchased through arm's-length market transactions but instead must be developed through learning by doing (Eriksson et al. 1997; Lord and Ranft 2000). Local market knowledge aids local marketing adaptation in several ways. For example, it enables MNE subsidiaries to offer products with locally acclaimed designs, develop locally appealing advertising campaigns and sales promotion techniques, and engage in competitive pricing and optimal price differentiation.

Local marketing adaptation may also involve the use of local brands (i.e., brands that exist in only one or a limited number of countries; Dimofte, Johansson, and Ronkainen 2008; Schuiling and Kapferer 2004). Multinational enterprises may decide to serve foreign markets through local rather than international brands to better respond to local buyers' needs, be more flexible in terms of local pricing and positioning, avoid negative reputation spillovers, or fill an unoccupied local market niche (Schuiling and Kapferer 2004). In addition, comparing the brand image of local and international food brands,

Schuiling and Kapferer (2004) find that, in general, people believe that local brands offer better value for money and are more trustworthy, down-to-earth, traditional, healthy, and reliable. Other perceived strengths of local brands are their uniqueness, cultural originality, and close link to national pride and identity (Dimofte, Johansson, and Ronkainen 2008; Ger 1999), causing some local brands to become local icons (Holt 2004; Özsomer 2012).

Multinational enterprises engaging in local marketing adaptation through wholly owned greenfields need to develop local market knowledge and reputable local brands from scratch, which is time consuming and risky (Anand and Delios 1997, 2002; Chen and Zeng 2004). Because local market knowledge is, to a large extent, experiential, it accumulates slowly in the case of a wholly owned greenfield subsidiary (Eriksson et al. 1997; Johansson and Vahlne 1977). Because intimate market knowledge is typically a necessary condition for building reputable local brands, developing such brands is also time consuming, especially if customers are highly satisfied with (and thus loyal to) existing brands (Rossiter and Percy 1997). Consequently, MNEs engaging in local adaptation through a greenfield WOS run the risk that competitors capture or further fortify the local market before the subsidiary is sufficiently competitive, causing its performance to remain low. This risk is substantially lower for MNEs engaging in local adaptation through full acquisitions because such MNEs buy "going concerns" that will likely possess substantial levels of local market knowledge and established local brands (Anand and Delios 1997, 2002; Caves 2007; Chen and Zeng 2004; Hennart and Park 1993; Schuiling and Kapferer 2004). Thus, full acquisitions usually have marketing adaptation advantages over wholly owned greenfields. In general, the higher the level of marketing adaptation an MNE pursues, the more receptive it will be to local idiosyncrasies, and thus, the more it will aim to tailor its subsidiaries' marketing activities to the circumstances in their respective host countries (Cavusgil, Zou, and Naidu 1993). Consequently, the higher the level of marketing adaptation an MNE plans, the higher its need for local market knowledge and its inclination to use local brands (Doz and Prahalad 1984; Alashban et al. 2002) and, thus, the higher it will value the marketing adaptation advantages of acquisitions over greenfields. We therefore hypothesize the following:

$H_1$: The planned level of local marketing adaptation is positively related to the likelihood that MNEs choose acquisition over greenfield entry.

## The Moderating Effect of Perceived Implementation Risks

Although the relationship between the planned level of marketing adaptation and the likelihood of acquisition entry will likely be positive, the strength of this relationship will likely vary depending on managers' perceptions of the risks associated with implementing the planned adaptation level. Specifically, the greater these perceived risks, the keener MNE parent executives will be to limit them, and thus, the stronger the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry will be.

Several factors likely contribute to the perceived risks associated with implementing the planned level of marketing adaptation. The first is the size of the prospective subsidiary relative to that of its MNE parent. This relative size reflects how the amount of financial and managerial resources to be committed to the subsidiary compares with the resource base of the MNE parent (Brouthers and Brouthers 2000; Hennart and Park 1993). Some parental resource commitments to foreign subsidiaries will take the form of investments that are firm specific, such as investments in specialized equipment or sales force training (Burgel and Murray 2000; Rindfleisch and Heide 1997). Such idiosyncratic investments result in so-called sunk costs—costs that cannot be recovered and therefore result in losses if a subsidiary fails and subsequently needs to be liquidated or sold (Puck, Holtbrugge, and Mohr 2009). The greater the prospective subsidiary's size relative to that of its parent, the more these sunk costs will pose a burden to the parent if the subsidiary fails, and thus, the higher parent executives will likely assess the risk associated with the entry. Consequently, the greater the subsidiary's relative size, the more certain parent executives would like to be that the subsidiary will actually achieve the optimal level of marketing adaptation. Therefore, the greater the subsidiary's relative size, the more value parent executives will likely assign to the marketing adaptation advantages of acquisitions at a given planned adaptation level. Accordingly,

$H_2$: The greater the relative size of the prospective subsidiary, the stronger the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry.

The perceived risks associated with implementing the planned marketing adaptation level are also determined

by the MNE parent's experience with the subsidiary's industry. The lower this experience, the less knowledge the parent will have about the prospective subsidiary's products (Brouthers and Brouthers 2000; Hennart and Park 1993), and thus, the greater parent executives will deem the risk that their firm will not succeed in realizing the planned level of marketing adaptation. For example, managers of MNEs with little knowledge of the focal industry may fear that their firm will be unable to translate the planned level of marketing adaptation into appealing local product designs or advertising campaigns. This fear stems from the fact that, in general, MNEs entering new industries cannot draw on their extensive experience in adapting the marketing for their core products (Gielens and Dekimpe 2001) because local adaptation strategies are often product specific (Birnik and Bowman 2007; Cavusgil, Zou, and Naidu 1993). Accordingly, Gielens and Dekimpe (2001) find that European grocery retailers' foreign subsidiaries, which typically need to engage in high marketing adaptation, performed worse when they used a retail format with which their MNE parent was relatively unfamiliar. Consequently, the lower an MNE parent's experience with the industry entered, the higher the perceived risk associated with implementing the planned marketing adaptation level, and thus, the higher the perceived value of the marketing adaptation advantages of acquisitions at that planned adaptation level. We therefore hypothesize the following:

H₃: The lower an MNE parent's experience with the prospective subsidiary's industry, the stronger the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry.

The perceived risks associated with implementing the planned degree of marketing adaptation are also driven by the level of economic development of the country entered. Specifically, the lower this development level, the higher parent executives will deem the likelihood that their firm will fail in realizing the planned adaptation level. The reason is that less developed countries are characterized by both a poorer information infrastructure and greater shortages of specialized intermediary firms, such as those conducting market research (Arnold and Quelch 1998; Khanna, Palepu, and Sinha 2005). As a result, MNEs entering less developed countries will find it more difficult to collect reliable, large-scale data on customer preferences (Khanna, Palepu, and Sinha 2005) and, thus, more difficult to determine the optimal content of the planned level of marketing adaptation.

Furthermore, less developed countries are characterized by greater purchasing power variability among customers and therefore require a more segmented approach for implementing the planned level of marketing adaptation (Dawar and Chattopadhyay 2002; Meyer and Tran 2006). Dawar and Chattopadhyay (2002, p. 461) assert that "income disparities and income flow variability lead to co-existence of very different market segments," forcing MNEs to implement their planned level of marketing adaptation in radically different ways for different segments (e.g., by designing segment-specific products and promotion campaigns). Such a diverse implementation approach is inherently more complex and costly than the "one-size-fits-all" form of local marketing adaptation that MNEs tend to employ in relatively homogeneous, developed countries (Meyer and Tran 2006). Because the implementation of the planned level of marketing adaptation entails greater risks in less developed countries, MNEs entering such countries will likely consider the marketing adaptation advantages of acquisitions even more valuable for realizing the planned adaptation level. Thus:

H₄: The less developed the country entered, the stronger the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry.

## METHODOLOGY

### Data Collection and Sample

To test our hypotheses, we gathered data from several archival sources and sent a questionnaire to senior executives of 821 Dutch firms with at least 100 employees and one foreign subsidiary. We obtained the names of most of these executives and firms from the Review and Analysis of Companies in Holland (REACH) database, which contains annual data from the Dutch Chamber of Commerce on all firms registered in the Netherlands. Some of the largest Dutch MNEs, such as Shell and Philips, consisted of Dutch-based divisions that could independently make foreign establishment mode decisions. Therefore, we obtained the names of managing directors of such divisions from annual reports and sent them a questionnaire as well. We excluded Dutch-based divisions of foreign MNEs from the survey.

Before we sent the questionnaire, several international management scholars evaluated it, and we pretested it on five experienced managers whose firms had recently

made foreign acquisitions and/or greenfield investments. Their feedback led us to make modest changes to the wording of several questions. In the questionnaire, we asked managers to provide data on one of their firm's foreign acquisitions, foreign greenfield investments, or on both expansion types. To maintain respondents' attention and commitment, we used various question formats (i.e., five- and seven-point Likert-type scales as well as multiple-choice and open-ended questions) and anchors (e.g., "very little/very much," "not at all/to a very large extent," "strongly negative/strongly positive"). The structure of the questionnaire was such that managers reported on one or two of the most recent expansions with which they had been personally involved and for which their firm was directly responsible. Consequently, their responses are unlikely to suffer from recall biases, especially because foreign expansions are salient events that usually feature prominently in the minds of those involved (Schwenk 1985).

After sending the questionnaire and a subsequent reminder by mail, we obtained a 19.2% response rate, with most respondents being chief executive officers, chief financial officers, and directors of corporate development. In total, we received data on 248 foreign subsidiaries established by 159 MNEs. For reasons explained previously, we excluded greenfield JVs and partial acquisitions from the sample (Brouthers and Brouthers 2000; Slangen and Hennart 2008). We also excluded those WOSs that only performed upstream activities (i.e., nonsales subsidiaries) and those for which we had incomplete archival or survey data, resulting in a final sample of 150 WOSs—71 full acquisitions and 79 wholly owned greenfields—established in 32 host countries by 105 Dutch MNEs over the 1995–2003 period.[1] The subsidiaries either produced goods or performed service functions (including marketing and sales) and originated from a variety of industries, including food and beverages; machinery and electronics; chemicals and synthetics; retail and wholesale trade; professional services; and transportation, storage, and communication (Barkema and Vermeulen 1998; Brouthers and Dikova 2010; Kogut and Singh 1988; Slangen 2011).

## Dependent and Main Independent Variables

*Establishment Mode.* In line with several prior studies (Brouthers and Brouthers 2000; Slangen and Hennart 2008), we created a dummy variable (coded 1 for full acquisitions and 0 for wholly owned greenfields) to measure a subsidiary's establishment mode. We identi-

fied that mode by including separate sets of survey questions about a foreign acquisition and a foreign greenfield investment and asking respondents to answer either or both sets of questions. To ensure the reliability of our measure, we explained at the beginning of the two sections that a foreign acquisition refers to "the purchase of part or all of the equity of an existing firm in a foreign country" and a foreign greenfield investment to "the establishment of an entirely new subsidiary in a foreign country, either alone or with one or more local partners" (Barkema and Vermeulen 1998).

*Planned Level of Marketing Adaptation.* Many researchers agree that "the issue of standardization versus differentiation is related directly to that of centralization versus decentralization" (Krum and Rau 1993, p. 51; see also Hamilton and Kashlak 1999; Laroche et al. 2001; Solberg 2002). Özsomer and Simonin (2004, p. 402 [emphasis in original]) state that "standardization is achieved *through* a tight linkage of decision making (centralization) between the subsidiary and the head office.... MNCs that implement standardized marketing programs want to protect and defend their … marketing mix elements by tightly centralizing decision making." Conversely, MNEs engaging in extensive local marketing adaptation typically give their subsidiaries substantial decision-making autonomy in the area of marketing (Slangen and Hennart 2008). Accordingly, we use the level of autonomy in marketing that an MNE plans for a subsidiary as a proxy for the degree to which the MNE plans to engage in local marketing adaptation. We focus on planned rather than realized autonomy levels because realized levels reflect ex post achievements, which logically cannot influence ex ante establishment mode choices. We assessed the planned level of subsidiary autonomy in marketing through the questionnaire by asking MNE parent executives to indicate on five-point Likert-type scales how much autonomy they intended to give the focal subsidiary in the areas of (1) product/service design, (2) the production/service process, (3) brand name usage, (4) pricing, and (5) advertising and sales promotion, all at the time the subsidiary was established (1 = "very little autonomy intended," and 5 = "very much autonomy intended"). Because the five items formed a single factor with a sufficient internal reliability ($\alpha$ = .79), we averaged their scores into a composite proxy for the planned level of local marketing adaptation.

*Subsidiary's Relative Size.* The first moderating variable is the size of the prospective subsidiary relative to that of its MNE parent. In line with several extant studies

(Bell 1996; Slangen and Hennart 2008; Slangen and Van Tulder 2009), we measure that relative size by managers' responses to a Likert-type survey question asking them to indicate, in terms of the number of employees, how large the subsidiary was compared with its parent at the time the subsidiary was established (1 = "very small," and 7 = "very large").

*MNE Parent's Industry Experience.* To identify an MNE parent's experience with the subsidiary's industry, we assessed whether that industry was one of the parent's main industries, one of its secondary industries, or a new industry in its portfolio. Specifically, we asked survey respondents for a description of the subsidiary's core products (i.e., goods or services) and compared that description with the parent's main and secondary industries listed in the REACH database. Following Slangen (2011), we created two dummy variables. The first takes a value of 1 when the subsidiary's products matched with one of its parent's secondary industries, while the second takes a value of 1 when the subsidiary's products did not match with any of its parent's main and secondary industries. When both dummy variables have a value of 0, the subsidiary's products matched with one of its parent's main industries. In this case, the parent is assumed to have the highest level of experience with the subsidiary's industry.

*Economic Development Level.* The final moderating variable is the economic development level of the subsidiary's host country. Following standard practice (e.g., Andersson and Svensson 1994; Barkema and Vermeulen 1998; Gielens and Dekimpe 2001), we measure that level by the country's gross domestic product per capita in the year before entry (at purchasing power parity exchange rates, in 2005 international dollars), as reported in the The World Bank's World Development Indicators.

We tested $H_2$–$H_4$ using interaction terms, which we created by multiplying our proxy for the planned level of marketing adaptation with each of the moderating variables. We first mean-centered all nondichotomous measures to avoid multicollinearity. Mean-centering does not affect the interpretation of the regression coefficient of an interaction term. However, it does affect the interpretation of the regression coefficients of the centered variables themselves; after the interaction term is entered, these regression coefficients no longer represent constant effects but rather effects at the mean value of the other centered variable (Aiken and West 1991). Because $H_1$ predicts a constant effect of the planned

level of marketing adaptation, it is only testable in regression models that do not contain the interaction terms.

## Control Variables

To minimize omitted-variable bias, we control for various other factors that have been found to influence the choice between acquisition and greenfield entry (for reviews, see Dikova and Brouthers 2009; Slangen and Hennart 2007). The Appendix reports the data sources for the control variables and their exact operationalization, along with examples of studies using the same or similar variables. We control for an MNE's international experience through the number of foreign countries in which it had subsidiaries and control for its host country experience through a survey-based ordinal variable ranging from 0 to 3. We control for an MNE's prior experience with greenfields and acquisitions through managers' responses to two Likert-type survey questions asking them to indicate how much experience their firm had with building new foreign subsidiaries and with acquiring foreign firms, respectively.

We also enter a dummy variable coded 1 for subsidiaries established by MNEs primarily operating in a nonmanufacturing industry (i.e., services or wholesale trade) and 0 for subsidiaries established by MNEs primarily operating in a manufacturing industry. We control for the planned flow of technological knowledge from the MNE parent to the subsidiary through managers' responses to a Likert-type survey question asking them to indicate how much proprietary technological knowledge their firm intended to transfer to the subsidiary at the time it was established. To control for the often-obtained U-shaped effect of industry demand growth on the likelihood of acquisition entry, we asked executives to indicate, on a Likert-type scale, their management team's expectation at the time of entry regarding the growth rate of the demand for the subsidiary's products. In line with prior studies, we enter the absolute value of the deviation of this growth rate from its sample mean, expressed in standard deviation units.

We control for host country acquisition restrictions through a survey-based measure obtained from IMD World Competitiveness Online. We control for the shortage of suitable acquisition targets in a host country through managers' responses to a Likert-type survey question asking them to rate the extent to which their firm was confronted with a lack of suitable local acquisition candidates at the time the focal subsidiary was

established. We control for the cultural distance between the Netherlands and each host country through a Euclidean distance version of Kogut and Singh's (1988) index, which utilizes countries' scores on Hofstede's (1980) cultural dimensions. Whereas Kogut and Singh's original index implicitly assumes that these dimensions are equally important in determining the cultural distance between countries, its Euclidean distance version relaxes this unproven assumption (Shenkar 2001). In addition to controlling for cultural distance, we also control for the geographic distance between the subsidiary and its MNE parent. Finally, we enter year dummies to control for potential time-varying influences on MNEs' choices between acquisitions and greenfields, such as imitation-based acquisition waves.

## Common Method Bias

Although we obtained two of the key independent variables (i.e., the planned level of marketing adaptation and a subsidiary's relative size) from the same survey as a subsidiary's establishment mode, the effects of these two independent variables are unlikely to suffer from a common method bias for several reasons. First, the exact goal of the survey was unknown to the respondents, making it unlikely that they noticed our motivation for including specific survey questions and adjusted their answers to these questions accordingly. Second, we tested the hypothesized moderating relationship between the planned level of marketing adaptation and a subsidiary's relative size through an interaction term. The regression coefficient of such a term is unlikely to be subject to common method bias because respondents are unlikely to think of interaction effects when filling out a survey (Chang, Van Witteloostuijn, and Eden 2010). Third, a principal components factor analysis of all survey-based variables included in our regression models did not yield one overarching factor but four separate ones, with the first factor explaining only 21.2% of the total explained variance of 62.1%, suggesting the absence of common method bias.

## Statistical Method

Because the dependent variable is dichotomous, we used binary logistic regression analysis to test our hypotheses. Logistic regression models are formally expressed as $P(y_i = 1) = 1/[1 + \exp(-a - X_i\beta)]$, where $y_i$ is the dependent variable, $X_i$ is the vector of independent variables for the ith observation, a is the intercept parameter, and β is the vector of regression coefficients (Amemiya 1981). Because the dependent variable has a value of 1 for

acquisitions, independent variables with positive regression coefficients positively affect the probability of acquisition entry, whereas those with negative coefficients negatively affect this probability. We estimated our regression models with STATA 12, clustering subsidiaries that belong to the same MNE to obtain robust (i.e., Huber–White) standard errors (Folta and Miller 2002; Williams 2000; Slangen 2011).

## RESULTS

Table 1 shows the means and standard deviations of our variables and their correlations. None of the correlations between the independent variables exceeds .5, suggesting that our regression results reported in Table 2 do not suffer from multicollinearity. This was confirmed by the finding that the variance inflation factors (VIFs) of all variables in all regression models were substantially lower than the commonly accepted multicollinearity threshold of 10 (Hair et al. 1998). Specifically, the highest VIF (pertaining to one of the year dummies) was 5.24, and the highest VIF among the main independent variables (including the interaction terms) was only 2.56.

Table 2 displays the results of the logistic regression analyses that we ran to test our hypotheses. The explanatory power of all six regression models is excellent: their chi-square values are all significant at $p < .001$, and their percentages of correctly classified observations all exceed the likelihood rate of 50.1% by at least 35.9% points.[2] The reported regression coefficients have been standardized, meaning that they are mutually comparable within a given model (yet not across models). Model 1, which only contains the control and moderating variables, shows that a subsidiary's relative size has the largest impact on establishment mode choice (β = .41), followed by the deviation from average demand growth (β = .31). The significantly positive beta of the latter variable indicates that both relatively low and relatively high expected growth rates stimulate acquisition entry. The preference for acquisitions at high growth rates presumably reflects the notion that executives prefer speedy entry in such cases to avoid the high foregone revenues and profits associated with slow greenfield entry. The preference for acquisitions at low growth rates presumably reflects the notion that low industry growth makes executives reluctant to increase industry supply through greenfields because supply increases at low growth rates would depress incumbents' market shares and profits and thus would

**Table 1.** Descriptive Statistics and Correlations

| Variable | M | SD | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | 11 | 12 | 13 | 14 | 15 | 16 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| 1. Establishment mode[a] | .47 | .50 | | | | | | | | | | | | | | | | |
| 2. MNE's international experience | 14.51 | 16.37 | .14 | | | | | | | | | | | | | | | |
| 3. MNE's host country experience | .99 | 1.09 | .34 | .30 | | | | | | | | | | | | | | |
| 4. MNE's greenfield experience | 4.91 | 1.73 | -.20 | .43 | -.12 | | | | | | | | | | | | | |
| 5. MNE's acquisition experience | 4.98 | 1.80 | .26 | .51 | .26 | .24 | | | | | | | | | | | | |
| 6. MNE is from a nonmanufacturing industry | .55 | .50 | -.05 | .14 | .12 | .01 | .11 | | | | | | | | | | | |
| 7. Technological knowledge flow from parent to subsidiary | 3.98 | 2.05 | -.18 | -.13 | -.03 | -.02 | -.06 | .00 | | | | | | | | | | |
| 8. Deviation from average demand growth | .82 | .54 | .15 | -.02 | -.07 | .15 | .05 | .03 | .01 | | | | | | | | | |
| 9. Acquisition restrictions | 1.81 | 1.06 | -.27 | .16 | -.02 | .17 | -.09 | -.16 | -.01 | .06 | | | | | | | | |
| 10. Shortage of acquisition targets | 2.76 | 2.01 | -.25 | -.00 | -.17 | .05 | .17 | -.02 | .06 | -.01 | .07 | | | | | | | |
| 11. Cultural distance | 2.77 | .69 | -.32 | -.05 | -.06 | .04 | -.15 | -.04 | .01 | .04 | .39 | .08 | | | | | | |
| 12. Geographic distance | 2,776.11 | 3,814.47 | -.17 | .21 | .03 | .19 | -.04 | -.00 | .04 | .00 | .26 | -.01 | .20 | | | | | |
| 13. Subsidiary's relative size | 2.45 | 1.60 | .27 | -.08 | -.00 | -.11 | -.02 | -.09 | .20 | -.07 | -.05 | -.01 | -.09 | .02 | | | | |
| 14. Subsidiary operates in one of its parent's secondary industries | .15 | .35 | .06 | .01 | .07 | .10 | .16 | .15 | .02 | -.06 | -.08 | -.02 | -.08 | -.07 | .04 | | | |
| 15. Subsidiary's industry is new to parent | .03 | .16 | .09 | .26 | .19 | -.11 | .11 | -.02 | -.09 | -.10 | .13 | -.03 | -.04 | .04 | .02 | -.07 | | |
| 16. Economic development level | 25,614.93 | 10,702.96 | .39 | -.06 | .29 | -.16 | .03 | .00 | -.16 | -.03 | -.44 | -.19 | -.50 | -.15 | .00 | .02 | .03 | |
| 17. Planned level of marketing adaptation | 3.01 | .99 | .35 | .11 | .15 | -.12 | .16 | .02 | -.08 | .01 | -.14 | .03 | -.23 | -.02 | .07 | .31 | .10 | .16 |

[a]Acquisition = 1.
Notes: N = 150. Correlations greater than or equal to l.16l are significant at *p* < .05, while those greater than or equal to l.21l are significant at *p* < .01 (two-tailed tests).

**Table 2.** Logistic Regression Estimates of the Probability of Acquisition Entry

| Variable | Model 1 | | Model 2 | | Model 3 | | Model 4 | | Model 5 | | Model 6 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| MNE's international experience | .20* | (.02) | .18* | (.02) | .16† | (.03) | .22** | (.02) | .13† | (.02) | .16* | (.03) |
| MNE's host country experience | .14† | (.29) | .13† | (.28) | .14* | (.28) | .12† | (.28) | .10 | (.31) | .11* | (.33) |
| MNE's greenfield experience | -.24** | (.17) | -.19* | (.22) | -.18* | (.24) | -.16† | (.23) | -.16* | (.23) | -.13* | (.23) |
| MNE's acquisition experience | .18† | (.22) | .15 | (.22) | .16† | (.24) | .12 | (.22) | .12 | (.26) | .11 | (.28) |
| MNE is from a nonmanufacturing industry | -.13† | (.60) | -.09 | (.59) | -.08 | (.62) | -.15† | (.75) | -.08 | (.60) | -.11* | (.74) |
| Technological knowledge flow from parent to subsidiary | -.22** | (.15) | -.19* | (.17) | -.18* | (.16) | -.15† | (.17) | -.20** | (.17) | -.17*** | (.17) |
| Deviation from average demand growth | .31*** | (.59) | .31*** | (.70) | .30*** | (.73) | .33*** | (.72) | .31*** | (.79) | .33*** | (1.14) |
| Acquisition restrictions | -.23* | (.41) | -.15† | (.37) | -.15† | (.39) | -.20* | (.41) | -.18* | (.43) | -.22** | (.54) |
| Shortage of acquisition targets | -.20* | (.17) | -.22* | (.20) | -.22** | (.25) | -.25** | (.20) | -.23* | (.26) | -.25* | (.43) |
| Cultural distance | -.08 | (.50) | -.06 | (.60) | -.06 | (.60) | -.06 | (.60) | -.04 | (.69) | -.04 | (.74) |
| Geographic distance (×10³) | -.10† | (.05) | -.15* | (.08) | -.14* | (.08) | -.16* | (.08) | -.15** | (.08) | -.16** | (.10) |
| Subsidiary's relative size | .41*** | (.24) | .41*** | (.31) | .44*** | (.41) | .36*** | (.29) | .41** | (.49) | .38** | (.53) |
| Subsidiary operates in one of its parent's secondary industries | .03 | (.86) | -.03 | (.94) | -.04 | (.99) | -.10 | (.93) | -.01 | (.85) | -.08† | (.79) |
| Subsidiary's industry is new to parent | .01 | (1.30) | -.02 | (1.09) | -.02 | (1.10) | -.02 | (1.24) | .00 | (1.10) | .01 | (1.36) |
| Economic development level (×10⁴) | .13 | (.61) | .14 | (.76) | .13 | (.78) | .12 | (.74) | .11 | (.53) | .09 | (.50) |
| Planned level of marketing adaptation | | | .21** | (.36) | .22** | (.38) | .15 | (.42) | .27*** | (.38) | .22** | (.52) |
| Planned level of marketing adaptation ×Subsidiary's relative size | | | | | .21* | (.29) | | | | | .14* | (.32) |
| Planned level of marketing adaptation ×Subsidiary operates in one of its parent's secondary industries | | | | | | | .22* | (1.16) | | | .19** | (1.18) |
| Planned level of marketing adaptation ×Subsidiary's industry is new to parent | | | | | | | .03 | (1.27) | | | .01 | (1.16) |
| Planned level of marketing adaptation ×Economic development level (×10³) | | | | | | | | | -.23* | (.06) | -.19* | (.06) |
| Model chi-square | 60.02*** | | 69.10*** | | 80.35*** | | 79.58*** | | 64.27*** | | 67.53*** | |
| Chi-square test of Model 2 versus Model 1 | | | 6.24* | | | | | | | | | |
| Chi-square test of significant interaction term(s) | | | | | 4.78* | | 4.28* | | 4.03* | | 11.38** | |
| Correctly classified observations | 86.7% | | 87.3% | | 86.0% | | 88.0% | | 88.7% | | 87.3% | |
| Pseudo R-square | .52 | | .56 | | .59 | | .58 | | .60 | | .64 | |

†p < .10.
*p < .05.
**p < .01.
***p < .001.
Notes: N = 150. Acquisition = 1. Standardized betas are reported with robust standard errors in parentheses. Year dummies and intercept are included but not shown. Significance tests are one-tailed if hypothesized and two-tailed if not hypothesized.

cause them to retaliate (Hennart and Park 1993; Slangen and Hennart 2008).

Model 2 tests $H_1$, which predicted that the planned level of marketing adaptation is positively related to the likelihood of acquisition entry. The hypothesis is supported because the regression coefficient of the planned level of marketing adaptation is significantly positive in Model 2 ($p < .05$). The model also shows that the planned level of marketing adaptation has the fourth largest standardized beta ($\beta = .21$), preceded only by the subsidiary's relative size ($\beta = .41$), the deviation from average demand growth ($\beta = .31$), and the shortage of acquisition targets ($\beta = -.22$). This indicates that the planned level of marketing adaptation is one of the key determinants of establishment mode choice.

Model 3 tests $H_2$, which proposed that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisition entry would be stronger for relatively larger subsidiaries. This hypothesis is also supported because the interaction effect of the planned level of marketing adaptation and a subsidiary's relative size is significantly positive in Model 3 ($p < .05$). To gain further insight into this interaction effect, Figure 1 plots how the planned level of marketing adaptation influences the likelihood of acquisition entry for relative subsidiary sizes one standard deviation below and above the sample mean, respectively. The figure shows that the planned level of marketing adaptation has a strong positive association with the likelihood of acquisition entry for relatively large subsidiaries but no association with that likelihood for relatively small subsidiaries. Thus, for the latter subsidiaries, the perceived value of the marketing adaptation advantages of acquisitions does not increase with the planned adaptation level, presumably because the risks associated with not realizing that level are deemed low if a subsidiary is relatively small.

Model 4 tests $H_3$, which predicted that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisitions would also be stronger for MNE parents with less experience with the subsidiary's industry. The model shows an insignificant main effect of the planned level of marketing adaptation, indicating that this level does not stimulate acquisition entry if the two dummies are both 0 (i.e., if a subsidiary operates in one of its parent's main industries; Jaccard and Turrisi 2003). The model also shows a sig-

**Figure 1.** Relationship Between the Planned Level of Marketing Adaptation and the Probability of Acquisition Entry for Relatively Small and Relatively Large Subsidiaries
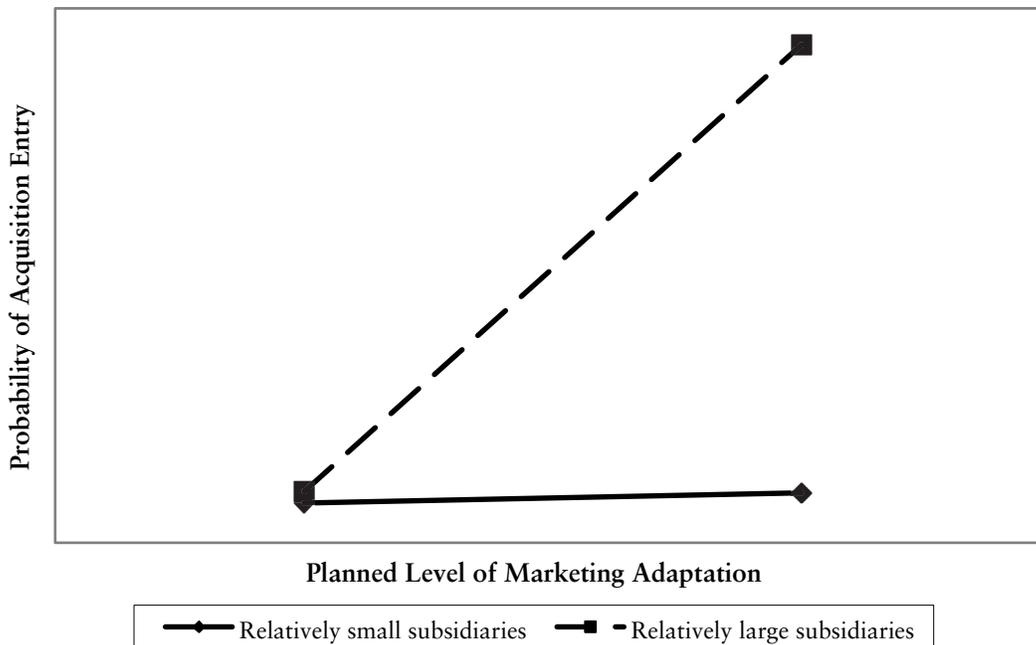
nificantly positive interaction with the dummy coded 1 for subsidiaries established in one of their parent's secondary industries ($p < .05$), which implies that the planned marketing adaptation level indeed stimulates acquisition entry for such subsidiaries. Thus, the degree to which the planned level of marketing adaptation stimulates acquisition entry is larger for subsidiaries established in one of their parent's *secondary* industries than for subsidiaries established in one of their parent's *main* industries. This result, which we depict graphically in Figure 2, is in line with $H_3$. However, the interaction with the dummy coded 1 for entries into new industries is unexpectedly insignificant, indicating that for such entries, the effect of the planned adaptation level is similarly weak as for entries made in a parent's main industry (see Figure 2). Thus, we find only partial support for $H_3$.

Model 5 tests $H_4$, which proposed that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisitions would be stronger for entries into less developed countries. The model shows a significantly negative interaction between the planned level of marketing adaptation and a host country's development level ($p < .05$). As Figure 3 illustrates, this result indicates that the positive relationship between the planned level of marketing adaptation and the likelihood of acquisitions is weaker for more developed countries or, in other words, that this relationship is stronger for less developed countries. Thus, we find support for $H_4$.

Model 6 includes all interaction terms simultaneously, yielding similar findings. $H_2$ and $H_4$ remain supported, while $H_3$ again receives partial support.

## ADDITIONAL ANALYSES

To assess the robustness of these results, we performed several additional analyses. First, because our proxy for the planned level of marketing adaptation does not measure that level directly, we reran our models using a single-item measure that directly captures the planned adaptation level. Specifically, we used managers' reverse-coded responses to a Likert-type survey question

**Figure 2.** Relationship Between the Planned Level of Marketing Adaptation and the Probability of Acquisition Entry at Different Levels of Parent Experience with the Subsidiary's Industry
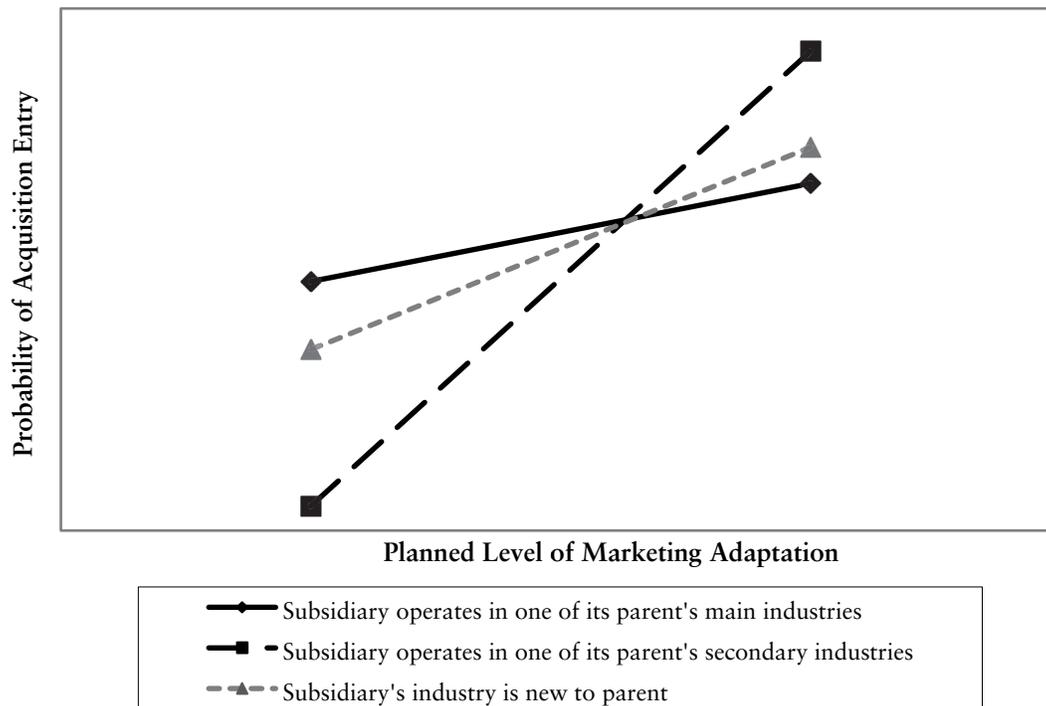
**Figure 3.** Relationship Between the Planned Level of Marketing Adaptation and the Probability of Acquisition Entry for Developing and Developed Countries
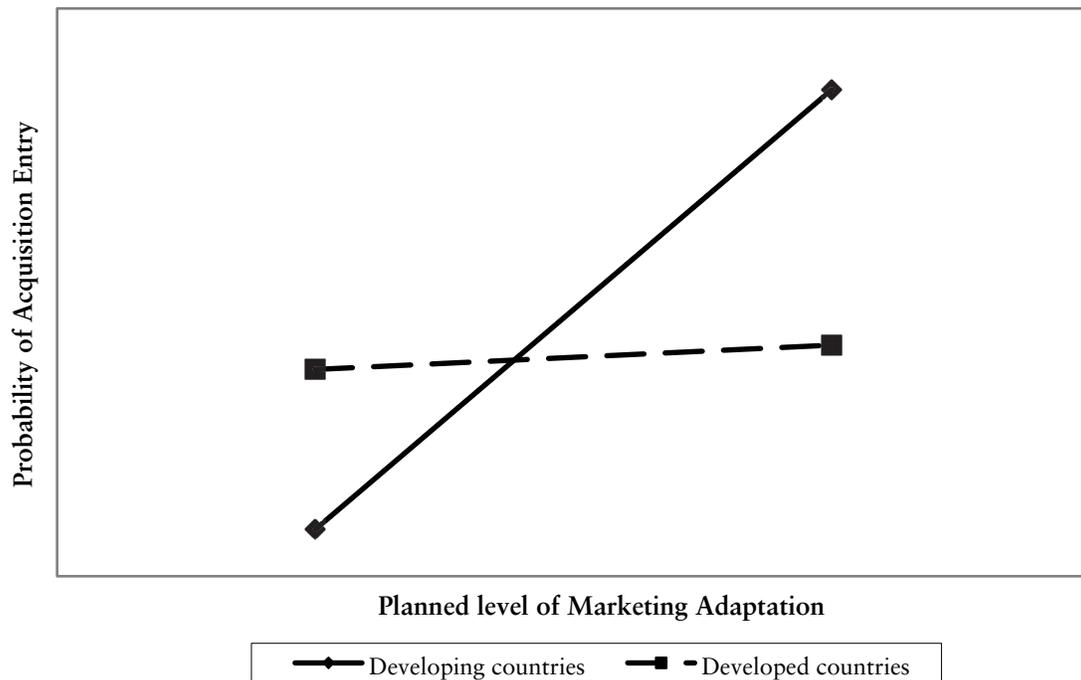


asking them to indicate how important it was to organize the subsidiary's production/service process in the same way as in the rest of their firm (1 = "not at all important," and 7 = "very important"). The results we obtained were similar to our initial results. The only noteworthy difference was that the interaction with the dummy coded 1 for entries into new industries now had its expected significantly positive effect, whereas the interaction with the dummy coded 1 for entries into parents' secondary industries was now insignificant.

Second, because subsidiaries established in the same host country may not be independent observations, we reran our models while clustering observations by host country rather than by MNE. We again obtained highly similar results, the only difference being that $H_2$ was now only supported at the 10% level in Model 6.

Third, because the planned level of marketing adaptation may be influenced by our moderating variables and thus may be endogenous rather than exogenous, we implemented a procedure similar to that used by Nachum and Zaheer (2005, p. 755). Specifically, we first ran an ordinary least squares regression using the planned level of

marketing adaptation as the dependent variable and all our moderating variables as the independent variables and generated the residual of that regression. This residual reflects the planned level of marketing adaptation not explained by the moderating variables. We then mean-centered the residual and substituted it for our initial measure of the planned level of marketing adaptation in all our regression models. We again obtained similar results, the only difference being that $H_4$ was now only supported at the 10% level in Model 6.

Fourth, to assess whether the exclusion of JVs from our sample causes our results to suffer from a selection bias, we added to our dependent variable a third category for greenfield JVs and partial acquisitions and reran our models using multinomial logistic regression analysis. These regressions, which are based on an enlarged sample of 203 observations, yielded full support for $H_3$ because the interactions with the two dummies were both significantly positive. The multinomial regressions also yielded support for the other hypotheses, although the support for $H_2$ in Model 6 was relatively weak ($p <$ .10). In summary, the results of our additional analyses (available upon request) are, in general, consistent with

our initial results, indicating that these initial results are representative and reliable.

## DISCUSSION

Although the international marketing literature has extensively examined the antecedents of marketing adaptation decisions, it has largely abstained from studying whether such strategic decisions codetermine the choice of foreign expansion mode. Motivated by this observation, we have addressed two important new questions: (1) How does the planned level of local marketing adaptation relate to the choice between full acquisitions and wholly owned greenfields? and (2) How is this relationship moderated by the perceived risks associated with implementing the planned adaptation level? We argued that full acquisitions typically come with local brands and market knowledge, whereas wholly owned greenfields do not, which causes full acquisitions to have marketing adaptation advantages over wholly owned greenfields. The perceived value of these advantages, we argued, increases with the marketing adaptation level planned for a WOS, leading this adaptation level to be positively related to the likelihood that the subsidiary will be established through an acquisition rather than through a greenfield investment. Moreover, we argued that this positive relationship is reinforced by the perceived risks associated with implementing the planned marketing adaptation level, as reflected by the subsidiary's relative size, its parent's experience with the industry entered, and the host country's development level. Analyzing a sample of Dutch WOSs and performing several robustness checks, we consistently found that these subsidiaries were indeed more likely to have been established through an acquisition when their parent planned a higher level of marketing adaptation for them. We also found substantial evidence that the planned marketing adaptation level is even more positively related to the likelihood of acquisition entry for MNEs that (1) are establishing relatively larger subsidiaries, (2) have less experience with the prospective subsidiary's industry, or (3) are entering less developed countries. As we explain next, these findings have noteworthy theoretical and managerial implications.

### Theoretical Implications

Our findings indicate that marketing strategy decisions affect managers' choices between building and buying a WOS, especially if they consider the local implementation of their planned strategy to involve high risks. We thus show that, in general, managers strive for a fit

between their preferred level of marketing adaptation and their subsequent choice of establishment mode. This insight is consistent with recent work emphasizing the importance of fit between marketing adaptation levels and the context in which they are implemented (Hultman, Robson, and Katsikeas 2009; Katsikeas, Samiee, and Theodosiou 2006; Xu, Cavusgil, and White 2006). Specifically, Katsikeas, Samiee, and Theodosiou (2006) find that MNEs typically attempt to fit the marketing adaptation level they pursue to the environmental context in which they operate and that MNEs realizing such a fit have better-performing subsidiaries. Likewise, Xu, Cavusgil, and White (2006) find that MNEs perform better if their marketing adaptation strategy fits with their internal organizational structure and management processes. Hultman, Robson, and Katsikeas (2009) show that firms have a higher export performance if they fit their marketing adaptation strategy to *both* external and internal factors. We complement these studies by revealing that MNEs not only attempt to fit their marketing strategy to the external and internal context in which it is implemented but also subsequently fit their mode of foreign establishment to the chosen marketing strategy. Furthermore, we contribute to the small but growing literature stream on the impact of marketing-related factors on foreign expansion decisions (e.g., Chen and Zeng 2004; Mitra and Golder 2002) by showing that marketing adaptation strategy is another factor that affects such decisions.

Our findings also show that the effect of the planned level of marketing adaptation on establishment mode choice is moderated by a subsidiary's relative size, its parent's experience with the industry entered, and the host country's development level. These findings indicate that establishment mode choices depend not only on the planned adaptation level per se but also on the risks that managers associate with implementing the planned adaptation level. Marketing strategy implementation is not without risks (Burgess and Steenkamp 2006), and these risks vary across subsidiaries and host countries. Specifically, our findings suggest that marketing strategy implementation is perceived to be more risky for relatively larger subsidiaries, those established in industries with which the parent has less experience, and those established in less developed countries. Prior establishment mode studies have only explored the main effects of a subsidiary's relative size, its parent's industry experience, and the host country's development level and have generated particularly inconsistent effects for the second factor (for a review, see Slangen and Hennart 2007). Specifically, some studies have found that MNEs

lacking experience with a prospective subsidiary's industry prefer acquisitions over greenfields (Chen and Zeng 2004; Hennart and Park 1993; Larimo 2003), whereas others have found the opposite (Brouthers and Brouthers 2000; Brouthers and Dikova 2010), and still others have found that industry experience has an insignificant effect (Barkema and Vermeulen 1998; Padmanabhan and Cho 1999; Slangen and Hennart 2008). These inconsistent direct effects, in combination with the significant moderating effects of either or both of our dummy indicators of industry experience, suggest that such experience has better explanatory power when it is modeled as a moderator rather than as a direct determinant of establishment mode choice.

## Managerial Implications

Even though our study analyzed actual strategic decisions, it potentially has important managerial implications. Strategic decisions consistent with efficiency-based theoretical predictions such as ours have been found to yield better-performing subsidiaries than strategic decisions at odds with such predictions (e.g., Brouthers 2002; Katsikeas, Samiee, and Theodosiou 2006). Brouthers (2002) found this to be true when comparing subsidiary ownership mode choices with the predictions of an extended transaction cost perspective, whereas Katsikeas, Samiee, and Theodosiou (2006) found it to hold when comparing marketing adaptation decisions with the predictions of strategic marketing theory. Assuming that these findings are generalizable to the context of our study, our results lead to the conclusion that firms pursuing high marketing adaptation levels are better off making full acquisitions unless they plan to establish a very small subsidiary, have extensive experience with its industry, or plan to enter a highly developed country. Under the latter three conditions, the implementation of the planned level of marketing adaptation will likely entail relatively low risks, meaning that it may be justified to discard the marketing adaptation advantages of full acquisitions and opt for a wholly owned greenfield instead.

Whereas firms pursuing high marketing adaptation levels usually seem better off making full acquisitions, in general, those seeking little marketing adaptation seem better off establishing WOSs through greenfields. The latter firms use a relatively standardized approach to international marketing and thus have relatively little to gain from the marketing adaptation advantages of full acquisitions. Indeed, a standardized marketing approach is generally easier to implement through wholly owned

greenfield subsidiaries because such subsidiaries do not come with established marketing practices that need to be undone (Slangen and Hennart 2008). However, if they establish a large subsidiary, have no experience with the industry entered, or enter a poor country, firms aiming for little marketing adaptation may actually be better off making full acquisitions instead. This is because in these three cases, the planned adaptation level, while low, involves high implementation risks for the firm.

## LIMITATIONS AND FUTURE RESEARCH DIRECTIONS

The main limitation of our study relates to our proxy for the planned level of marketing adaptation, which does not measure that level directly but instead measures the planned level of subsidiary autonomy in marketing. Although adaptation and autonomy levels are closely related (see, e.g., Krum and Rau 1993; Laroche et al. 2001; Solberg 2002), and although our one-item measure of adaptation intentions yielded similar findings, planned autonomy levels do not perfectly reflect such intentions. Thus, our findings should be interpreted with some caution. Future studies could use finer-grained, direct measures of the planned level of marketing adaptation to replicate our tests and, moreover, relate these measures to other entry mode decisions such as the choice between establishing a sales subsidiary and contracting a local sales agent (Anderson 2008). Such an agent may provide marketing adaptation advantages over a sales subsidiary and, thus, be more attractive to firms that desire greater marketing adaptation.

We also abstained from directly measuring the perceived risks associated with implementing the planned level of marketing adaptation but instead argued that these risks are a function of our moderating variables. We purposefully chose this approach because marketing strategy implementation risks are a multifaceted, complex phenomenon, making managers' perceptions of these risks challenging to measure directly. Nevertheless, future studies could attempt to overcome this challenge and develop survey instruments that directly capture perceived strategy implementation risks (Sitkin and Weingart 1995). Such instruments could be based on existing measures of perceived risk from consumer behavior research (for a review, see Mitchell 1999) and used to replicate our tests or gauge the perceived risk associated with the implementation of other international marketing strategies such as e-commerce adoption (Gregory, Karavdic, and Zou 2007; Prasad, Ramamurthy, and Naidu 2001).

Due to data restrictions, we could not distinguish acquisitions of independent local firms from those of foreign-owned subsidiaries. This is a limitation because these two types of acquisitions may differ from each other in terms of their possession of local brands and/or market knowledge. As a result, their likelihood of occurrence could be affected to different degrees by the planned level of local marketing adaptation. Future studies could therefore analyze the choice between these two types of acquisitions or that between either or both of them versus wholly owned greenfield entry. Such studies would shed more light on the marketing adaptation advantages associated with equity-based entry modes.

Our empirical analyses are based on a relatively small sample of foreign entries by Dutch MNEs. This may be a limitation because MNEs originating from other countries may make different establishment mode choices on the basis of the same set of factors. Makino and Neupert (2000), for example, mimicked Hennart's (1991) study of Japanese entries into the United States by analyzing the reverse case of U.S. entries into Japan and obtained different results for four of the six variables common to both studies. To assess the degree to which our findings are generalizable to non-Dutch MNEs, future studies could replicate our study for a sample of MNEs from one or more other home countries.

In this study, we have examined how the relationship between the planned level of marketing adaptation and the likelihood of acquisition entry is moderated by the perceived risks associated with implementing the planned adaptation level. Future studies could explore the relevance of other moderators, such as the availability of suitable local acquisition targets and an MNE's experience with evaluating targets' marketing assets and managing acquired firms (Bahadir, Bharadwaj, and Srivastava 2008; Homburg and Bucerius 2005). These factors may also influence the degree to which the planned level of marketing adaptation results in acquisition entry. Their consideration will further improve our understanding of the relationship between international marketing strategy and establishment mode choice.

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**Appendix.** Measurement Details of the Control Variables

| Control Variable | Data Source | Operationalization | Exemplary Studies |
| --- | --- | --- | --- |
| MNE's international experience | Corporate reports and websites | Number of foreign countries in which the MNE has subsidiaries. | Barkema and Vermeulen (1998), Gielens and Dekimpe (2001), Kogut and Singh (1988) |
| MNE's host country experience | Survey | Ordinal variable coded 0 for MNEs without prior subsidiaries in the host country, 1 for MNEs with prior sales subsidiaries there, 2 for MNEs with prior manufacturing/service subsidiaries there, and 3 for MNEs with both prior sales and prior manufacturing/service subsidiaries there. Survey question: "In which way(s) has your entity been active in country X before greenfield A [venture B] was established [acquired]? Please tick all forms of involvement that apply." | Johansson and Vahlne (1977), Slangen and Hennart (2008) |
| MNE's greenfield experience | Survey | "How much experience with setting up new foreign subsidiaries (i.e., foreign greenfield investments) does your entity have?" (1 = "none," and 7 = "very much") | Padmanabhan and Cho (1999), Slangen (2011) |
| MNE is from a non-manufacturing industry | REACH database | Dummy variable coded 1 for MNEs primarily active in services or wholesale trade and 0 for MNEs primarily active in manufacturing. | Brouthers (2002), Ekeledo and Sivakumar (1998), Kogut and Singh (1988) |

| Control Variable | Data Source | Operationalization | Exemplary Studies |
|---|---|---|---|
| Technological knowledge flow from parent to subsidiary | Survey | "How much proprietary technological knowledge did your entity intend to transfer to greenfield A [venture B] at the time of the decision to establish [acquire] the venture?" (1 = "none," and 7 = "very much") | Slangen (2011), Slangen and Hennart (2008) |
| Deviation from average demand growth | Survey | Absolute value of the deviation of the expected growth rate from its sample mean, expressed in standard deviation units. Survey question: "At the time of the decision to establish greenfield A [acquire venture B], how large did your management team expect the growth rate of the demand for greenfield A's [venture B's] products/services would be?" (1 = "strongly negative," and 7 = "strongly positive") | Chen and Zeng (2004), Hennart and Park (1993) |
| Acquisition restrictions | IMD World Competitiveness Online | "Foreign investors are free to acquire control in domestic companies" (0–10 scale; reverse-coded) | Delios and Henisz (2000), Slangen (2011) |
| Shortage of acquisition targets | Survey | For greenfields: "To what extent was the decision to undertake a greenfield investment in country X influenced by a lack of suitable acquisition candidates in country X?" (1 = "not at all," and 7 = "to a very large extent") For acquisitions: "To what extent was your entity confronted with a lack of suitable acquisition candidates in country X?" (1 = "not at all," and 7 = "to a very large extent") | Slangen (2011), Slangen and Hennart (2008) |
| Cultural distance | Hofstede (1980) | $$CD_j = \sqrt{\Sigma_{i=1}^{4}\left\{\left(I_{ij}-I_{iNL}\right)^2 / V_i\right\}},$$ where $CD_j$ is the cultural distance between host country j and the Netherlands, $I_{ij}$ is host country j's score on Hofstede's ith dimension, $I_{iNL}$ being the score of the Netherlands on that dimension, and $V_i$ being the dimension's variance. | Kogut and Singh (1988), Mitra and Golder (2002), Slangen (2011) |
| Geographic distance | Google Maps distance calculator | Great-circle distance (in thousands of kilometers) between the midpoints of the cities hosting the MNE parent and the subsidiary. | Slangen (2011) |
| Year dummies | Survey | T – 1 binary variables, with 1995 as the baseline year. Survey question: "In what year did greenfield A become operational [was venture B acquired]?" | Barkema and Vermeulen (1998) |

## NOTES

1. The 32 host countries in the sample include Australia, Austria, Belgium, Brazil, Chile, China, Czech Republic, Denmark, Finland, France, Germany, Greece, Hong Kong, Hungary, India, Italy, Japan, Luxembourg, Mexico, Norway, Poland, Portugal, Romania, Russia, Singapore, South Africa, Spain, Sweden, Switzerland, Turkey, the United Kingdom, and the United States.

2. The likelihood rate is calculated as $a^2 + (1 - a)^2$, where a is the proportion of acquisitions in the sample.

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