The Impact of Institutional Distance on the Choice of Multinational Enterprise's Entry Mode: Theory and Empirical Evidence from Vietnam

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ABSTRACT

Manuscript type: Research paper.
Research aims: This study aims to investigate the impact of institutional distance between home and host countries on the choice of multinational enterprise's (MNE) entry mode into Vietnam.
Design/ Methodology/ Approach: Transaction cost theory was adopted to develop the hypotheses. The data of 82 MNE subsidiaries located in Vietnam were extracted from the World Bank Enterprise Survey. Probit regression was employed to estimate the impact of the institutional distance between home and host countries on the choice of the MNE's entry mode.
Research findings: The empirical results support the hypotheses, revealing that MNEs are more likely to enter Vietnam via acquisition

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investment rather than greenfield investment. This happens when both the formal and informal institutional distance between Vietnam and the home countries is large. Findings also suggest that the institutional distance between a host country with a transition economy and the home countries is an important element to take into account when MNEs decide to invest in a transition economy that contains high level uncertainties.
Theoretical contributions/ Originality: The adoption of the transaction cost theory enables this study to conceptualise the framework which is used to empirically test the effect of the institutional distance between Vietnam and home countries on the MNEs' entry mode decision. This study shows that the transaction cost approach offers insights into how the institutional distance between the host and home countries affect the choice of the MNEs' entry mode into a transition economy. This study contributes to international business literature by developing theoretical arguments about the role of the national institutional dissimilarities on the choice of the MNEs' entry mode in a transition economy.
Practitioner/ Policy implications: The implication drawn from this study is that MNEs investing through acquired subsidiaries are less burdened by environmental uncertainties since acquired subsidiaries offer more familiarity with the formal institutions. This can help the MNEs to establish a close relationship with the local partners and the government. This also increases the MNEs' cross-cultural communication and knowledge thereby, enhancing the investment.
Research limitation: Further research should consider more parent firm characteristics so that implications for the MNEs' entry strategy are developed. Given the role of the different managers at the different levels, future study should capture the perception of these managers who are based at the headquarters so as to further examine the effect of institutional distance.

Keywords: Formal Institutional Distance, Informal Institutional Distance, Entry Mode, MNE, Subsidiary, Transition Economy.
JEL Classification: F23, M16

1. Introduction

Vietnam began to engage in economic liberalisation programmes in 1986. To mark the opening of its economy, a reform policy known as Doi Moi was introduced. This caused a significant inflow of foreign investments marked by multinational enterprises (MNEs) that showed a strong interest in investing in Vietnam although each had a different motivation for doing so (e.g., market seeking, resource seeking, strategic asset seeking, etc.). This phenomenon offers scholars a rich dataset to conduct research and to examine the implications of the institutional effect on the MNEs' entry mode into a transition economy. According to Werner (2002), the choice of foreign entry mode is one of the crucial strategies in an MNE's internationalisation process. The decision on whether to establish sub-units abroad by greenfield investment or by acquiring an established business in a foreign target market is very important for the MNEs (Slangen & Hennart, 2008). The reason is that MNEs often need local resources or market knowledge to achieve their strategic goals (Meyer, Estrin, Bhaumik, & Peng, 2009). These factors are crucial to the success of their overseas operation which is reflected by the subsidiary's performance and its competitive advantage (Chueke & Borini, 2014). Accordingly, the optimal mode of entry provides an important means for the MNEs to manage challenges in the local market (Meyer, 2001).

International business scholars (Anand & Delios, 2002; Hennart & Slangen, 2015; Dikova & van Witteloostuijn, 2007; Brouthers & Brouthers, 2000; Dikova, 2012; Brouthers, 2002; Chueke & Borini, 2014) have examined and analysed MNEs' entry modes. They found that the choice between greenfield investment and acquisition depended on a few factors such as the investing firm's resources and capabilities (Anand & Delios, 2002; Hennart & Slangen, 2015) and the firm's need to minimise transaction costs (Dikova & van Witteloostuijn, 2007; Brouthers & Brouthers, 2000; Dikova, 2012; Brouthers, 2002; Chueke & Borini, 2014). Most of these studies focussed on developed economies. Other scholars (Gelbuda, Meyer, & Delios, 2008; Meyer & Nguyen, 2005; Wright, Filatotchev, Hoskisson, & Peng, 2005; Dikova, 2012) however, indicated that the MNEs' strategies in transition economies differ significantly from that of developed economies due to different institutional frameworks. Institutional dissimilarity also affects the entry strategies of the MNEs into a transition economy (Meyer et al., 2009; Peng, 2003). For these reasons, it is believed that research within the context of a transition economy can be a good ground for evaluating and investigating how institutional distance between the country of origin of the investing firms and the host country with the transition economy can affect the MNEs' entry mode decision into foreign environments.

To address the aforementioned gap noted in the existing literature, this study conceptualises a theoretical framework that empirically tests the effect of the institutional distance between Vietnam and the home countries on the MNEs′ entry mode decision. This is accomplished by adopting the transaction cost theory (Williamson, 1981). In doing so, this study aims to show that a transaction cost approach can offer insights into how the institutional distance between the host and home countries can affect the choice of the MNEs′ entry mode into a transition economy. Theoretical arguments related to the role of the national institutional context dissimilarities and the choice of the MNEs′ entry mode as investors in a transition economy are developed. By doing so, we add new insights to illustrate how institutional distance affects the choice of the MNEs′ entry mode into a transition economy. It is believed that our theoretical arguments provide a new platform in international business literature thereby, offering a future research agenda.

This paper focusses on multinational subsidiaries that are established in Vietnam for several reasons. First, Vietnam has gone through a major economic transition process but there are still weaknesses in the country's formal and informal institutions which remain to be major obstacles to business (Meyer & Nguyen, 2005; Nguyen, Le, & Bryant, 2013). Despite the positive changes that were introduced by the Enterprise Law in 2000, the level of competitiveness and the level of international integration of local counterparts in Vietnam still differ vastly from those of developed economies. Hence, the type of relationships established by foreign firms with the local partners in these economies also differed widely (Giroud, 2007; Meschi, Phan, & Wassmer, 2016; Vo & Le Hoang, 2017). Second, the rich stream of entry mode research has focused mainly on countries with developed economies (Slangen & Hennart, 2008; Brouthers & Brouthers, 2003), Eastern European economies (Dikova, 2012) and emerging economies (Chueke & Borini, 2014). Analyses of the effect of institutional distance affecting the choice of the MNE's entry mode within a transition economy in Vietnam, where economic reforms had been implemented but where political reforms were rejected, can create new insights. Such a situation exists because a transition economy environment of this nature bears additional uncertainties and complexities which can affect knowledge exchange between foreign subsidiaries and the local counterparts. This can impede their absorptive capacity (Meyer, 2004). Compared to the attributes of other transition economy types, it appears that the continuing presence of a Marxist political ideology can influence the values and behaviour of local managers such as those in Vietnam (Meschi et al., 2016; Vo & Le Hoang, 2017). This creates a socialist imprint on local partner firms which can lead to different institution-foreign firms and foreign firm-local partner relationships (Beugelsdijk, Slangen, Maseland, & Onrust, 2015; Beugelsdijk, Maseland, Onrust, van Hoorn, & Slangen, 2015). This transition context can provide useful insights into the MNEs' relation with local actors. For that reason, this study is grounded within the context of a transition economy such as Vietnam. It is hoped that the outcome can enhance the understanding of how the institutional distance between Vietnam and the home countries affect the choice of the MNEs' entry mode into a transition economy.

The rest of the paper is organised as follows. Section 2 reviews prior literature on underpinning theory and hypotheses development. Section 3 explains the research method. Section 4 reports the results. Section 5 discusses the findings and brings the paper to a conclusion.

2. Literature Review and Hypotheses Development

In international business literature, institutional distance refers to "the extent of dissimilarity between host and home institutions" (Xu & Shenkar, 2002, p. 610). Institutional distance is further categorised into formal and informal institutional distance. Formal institutional distance is reflected in the regulatory distance while informal institutional distance is captured by the national cultural distance (De Jong, Vo, Jindra, & Marek, 2015; Li, Jiang, & Shen, 2016). Several studies (Kogut & Singh, 1988; Brouthers & Brouthers, 2000) revealed that institutional differences between countries affect entry costs, process of transferring management practices and the risk of operating in institutionally distant countries (Kogut & Singh, 1988; Brouthers & Brouthers, 2000). With the transaction cost theory, scholars (Brouthers, 2002; Dikova, 2012) have argued that institutional distance impede the transferring of organisational practices from the headquarters to the foreign sub-units. Such transfers are more difficult to achieve if the subsidiary is a locally acquired firm located in a country with institutional dissimilarities. Therefore, when the institutional distance between the home and host countries increases, the business costs and the levels of uncertainty related to business operations in the host countries also increase (Dikova, 2012; Chueke & Borini, 2014).

Literature (Cho & Padmanabhan, 1995) has classified foreign market entry modes into two groups: (1) acquisition – acquiring an existing local firm (or joint-venture), and (2) greenfields – setting up a completely new plant (Harzing, 2002). Choosing between acquisition and greenfields suggests different types of tradeoffs between the level of control, degree of investment risk, resource commitments and information search (Dikova, 2012). While acquisition allows access to the local resources, it also creates challenges for the MNEs in terms of managing the acquired firm and in dealing with the organisational and cultural clashes (Capron, Mitchell, & Swaminathan, 2001). Acquiring firms often have to pay for unwanted assets. This is because making an accurate assessment value of a foreign acquisition target is either difficult or impossible (Dikova, 2012; Lee & Lieberman, 2010). In contrast, greenfields allow the transfer of strategic assets from the headquarters to the subsidiaries. This can generate competitive advantages such as allowing the MNEs to have a higher level of control over their foreign subsidiaries thereby, gaining full benefits from these subsidiaries (Hennart & Park, 1993). Greenfields however, require higher levels of information gathering and processing. They also require more time for the MNEs to establish business relations in the host country (Lee & Lieberman, 2010).

From the standpoint mentioned above, several scholars have observed that MNEs tend to enter institutionally distant countries through greenfields so as to avoid any intra-organisational conflicts and difficulties in integrating the foreign sub-units. Other scholars (Xu & Shenkar, 2002; Dikova, 2012) however, stress that involving and obtaining legitimacy in an institutional distant country is more crucial for the MNEs rather than internal consistency (Zaheer, 1995). This is because making an entry into the target market through acquisition lowers the risk. Given the debate, we argue that institutional distance between host countries with transition economy and home countries cannot be ignored when studying foreign entry modes of the MNEs.

Using the transaction cost theory as a framework, several studies (Williamson, 1981; Hennart & Park, 1993) suggested that MNEs focus on the costs of alternative organisational arrangements. However, Hennart and Park (1993) suggested that MNEs prefer modes of operation that internalises sensitive interfaces. In transition economies, the main dilemma faced by MNEs is probably the need to choose between greenfields on one side and partnering with local firms through acquisition (or joint venture) on the other. The reason is that MNEs entering a transition economy must first choose between accessing local context-specific resources and capabilities in an embedded form or entering the transition economy on their own. Due to the large institutional distance, MNEs often need local resources such as institutional or market knowledge that is embedded within existing organisations (local firms) (Meyer & Estrin, 2001; Anand & Delios, 2002). Adopting the transaction cost approach, this study argues that MNEs are more likely to choose acquisitions (or joint venture) when both the formal and informal institutional distance between the home countries and host countries is large.

The large formal institutional distance between the home and host countries is likely to favour an MNE wishing to establish a subsidiary in an institutionally distant host country whether via greenfields or acquisitions. Each country has its own institution and this generates an institutional distance between the home and host nations (Gaur & Lu, 2007). The institutional distance becomes larger when noted in the context of a developed nation and a transition nation. This is because institutions in transition countries carry a higher level of uncertainty (Harzing & Pudelko, 2016) and create more challenges for the MNEs.

When choosing greenfields, MNEs need to adapt to the requirements, rules and regulations of the local government and local markets in order to operate in the host country. Some MNEs may even be discriminated against by the local government (Dikova, 2012; Delios & Henisz, 2003). When MNEs enter a host country because of the high formal institutional distance by selecting greenfields investment, they face difficulties in terms of labour resources and other input. They also face difficulties in establishing the distribution system because of the discrimination hazards posed by the local government (Eden & Miller, 2004). Such difficulties increase the business cost for the MNEs in the host country.

In contrast, acquired subsidiaries reduce the impact of the environmental uncertainty for the MNEs because they are more familiar with the formal institutions; they also have close relationships with the government (Slangen, 2011; Kostova & Zaheer, 1999). Another advantage is that acquired subsidiaries can access the local resources more easily (Spencer & Gomez, 2011) and they bring in local market knowledge (Wilson, 1980) thereby enabling the MNEs to be locally responsive. Such knowledge is typically location-bound, that is, applicable only in a particular country or a small set of formally institutional similar countries. Since market knowledge is, to a large extent, tacit and experiential, it is difficult to purchase knowledge in a disembodied form (Hennart, 1991). Moreover, it is time-consuming to develop this kind of knowledge through greenfield investments (Johanson & Vahlne, 1977) hence, it is more efficiently obtained through acquisitions (Harzing, 2002). Local market knowledge is particularly important to MNEs seeking to expand into formal institutional distant countries (Tan & Mahoney, 2003). The reason is because such countries have radically different regulations and rules which are unfamiliar or uncomfortable to MNEs (Hofstede, 2001). Based on this, this study proposes the following hypothesis:

H_1: The greater the formal institutional distance between the home and host countries, the greater an MNE tends to enter the formal institutional distant country through acquisitions rather than through greenfields.

Informal institutions (cultural aspects) condition the MNEs' entry strategy (Peng, Sun, Pinkham, & Chen, 2009). They also involve higher management costs for the MNEs to operate abroad. Managers from home countries experience cultural dissimilarities from employees in foreign subsidiaries. In this sense, as the informal institutional distance between the home and host countries increases, the MNEs are less likely to choose greenfields investment. There are several reasons. First, obtaining legitimacy for entering a foreign institution is the crucial responsibility of the MNEs. In this regard, understanding the values, norms and cognition of the host country requires intensive cross-cultural input. Thus, managers need to acquire a greater knowledge about the culture of the others since cultures are often tacit (Boyacigiller, Goodman, & Phillips, 2004). Unlike greenfield subsidiaries, acquired subsidiaries are easier for the MNEs since they can communicate easily with the locals. They are likely to obtain knowledge of the local organisations, making this easier for the MNEs' entry. Greenfield subsidiaries, in contrast, have less cultural knowledge to draw upon when communicating with local peers thereby, inhibiting the MNEs' efforts to gain legitimacy (Meyer, 2001; Li et al., 2016). Based on this, it is deduced that where informal institutional distance is high, interaction with local actors will be particularly crucial as it boosts the importance of generating links with local partners so as to gain local legitimacy. This leads us to propose that when the MNEs need to obtain local legitimacy to reach local business networks, the MNEs will outweigh other considerations. Based on this, this study proposes that:

H_2: MNEs prefer to enter an informally institutional distant country through acquisitions rather than through greenfields.

3. Research Methodology

3.1 Data

To test the hypotheses, we utilised the 2015 dataset on Vietnam. This was extracted from the World Bank Enterprise Survey. A questionnaire that covered a broad range of business environment areas ranging from access to finance, types of establishment, firm and industry characteristic, firm performance measures and so on was administered. In the 2015 Vietnam survey, 996 firms operating in Vietnam were investigated. The population of the current study is made up of foreign investors which had established affiliates in Vietnam. This study only selects firms that are partly- or wholly-owned by foreign investors from the 2015 Vietnam survey. A total of 82 out of 996 firms were foreign-owned. Their headquarters stemmed from 14 different countries. This information allowed us to calculate the formal and informal institutional distances between the home and host countries (14 country pairs). To measure those variables, other data source such as the World Development Indicators' (WDI) database were consulted. This database carries six dimensions of governance quality that are identified by Kaufmann, Kraay, and Mastruzzi (2006) to reflect a country's formal institution. This enabled us to measure the formal institutional distance between the home and host countries (Dikova, 2012). This study also used Hofstede's cultural dimensions obtained from his website to capture the informal institutional distance between the home and host countries (De Jong et al., 2015).

3.2 Variables and Measures

3.2.1 Dependent Variable

The dependent variable of our study is entry mode which is defined as "a structural agreement that allows a firm to implement its product market strategy in a host country. This can be done either by carrying out only the marketing operations (i.e., via export modes) or carrying out both the production and marketing operations, either on its own or in partnership with others (contractual modes, joint ventures, wholly owned operations)" (Sharma & Erramilli, 2004, p. 2). We measure our dependent variable with a dummy variable which equals one when the MNE has established a subsidiary through full or partial acquisition or a joint venture, and zero if otherwise (i.e., in cases of greenfield investments – wholly owned subsidiaries) (Slangen & Hennart, 2008).

3.2.2 Independent Variable

Our independent variable is institutional distance which is defined as "the extent of similarity or dissimilarity between the formal (or regulative) and informal (cultural) aspects of the institution of any two countries" (Gaur & Lu, 2007, p. 87). We measure formal institutional distance by using the six dimensions identified by Kaufmann et al. (2006): voice and accountability, political stability and absence of violence, government effectiveness, regulatory quality, rule of law and control of corruption (Dikova, 2012). Kogut and Singh's (1988) formula is applied to calculate the formal institutional distance between the home and host countries via the following equation:

$$ID_{vj} = \frac{\sum_{i=1}^{6}\left\{\left(I_{ij} - I_{iv}\right)^2 / V_i\right\}}{6} \tag{1}$$

where ID_{vj} is formal institutional distance index between Vietnam and home countries; I_{ij} is institutional dimension i^{th} of home country j^{th}; I_{iv} is institutional dimension i^{th} of Vietnam, Vietnam is reflected by "V"; and V_i is variance of institutional dimension i^{th}.

Based on formula (1) and the data source noted in the preceding section, institutional distance between home country and Vietnam is measured. A larger value represents greater institutional distance between home country and Vietnam.

Informal institutional distance is captured by the cultural distance between the home and host countries (Slangen & Beugelsdijk, 2010). This variable is measured based on the difference of the six cultural dimensions introduced by Hofstede (1980): power distance, individualism, masculinity, uncertainty avoidance, long-term orientation and indulgence. These six dimensions are scaled from 0 to 100 (per cent). The larger the scale that is assigned to each of the six dimensions the country has, the higher the power distance, individualism, masculinity, uncertainty avoidance, long-term orientation and indulgence gained. In addition, Kogut and Singh's (1988) formula is used to measure the cultural distance between Vietnam and the home countries. The formula is as follows:

$$CD_{vj} = \frac{\sum_{i=1}^{6}\left\{\left(I_{ij} - I_{iv}\right)^2 / V_i\right\}}{6} \tag{2}$$

where CD_{vj} is the index of cultural difference between Vietnam and home countries; I_{ij} is the i^{th} cultural aspect of j^{th} home countries; I_{iv} is the

i^{th} cultural aspect of Vietnam, V is the abbreviation of Vietnam; V_i is the variance of the i^{th} cultural aspect.

Based on formula (2) and the secondary data (about the national culture) that were obtained from Hofstede's website, the cultural distance index is calculated. The greater the index value, the greater the cultural distance between Vietnam and the home country.

3.2.3 Control Variables

To account for investor firm-level effects, this study included several control variables in the analysis. These control variables were used in past entry mode studies. Results show that they significantly affect the foreign entry mode choice of MNEs. In this study, we first added parent-company age which is calculated by using the difference between the year of the parent firm's founding and 2015. The information about the founding year is taken from the website of the parent company (Harzing, 2002; Chueke & Borini, 2014). It is deemed that the older the parent company, the higher the company's experience will be. This allows us to explore the market more successfully through the acquisition investment (Chueke & Borini, 2014). Second, we control internationality which is measured as the share of international sales to total sales. This information is reported in the questionnaire of the World Bank Enterprise Survey. It appears that firms which are more international have a higher propensity to choose more integrated entry modes (Zejan, 1990; Dikova, 2012). It seems that MNEs with greater international experience are more reluctant to conduct acquisitions because they seek greater returns. This is because the risk of operating abroad decreases as international experience increases. Third, we have the subsidiary's R&D intensity (empirically used in the past) to serve as determinants for the MNE's entry mode choice (Simões, Biscaya, & Nevalo, 2002; Vo, 2013; Vo & Le Hoang, 2017). This variable is measured by the percentage of the subsidiary's R&D expenses in the subsidiary's total sales (this information is reported from the questionnaire). This item is used as a proxy for R&D. Firms with high R&D intensity prefer to enter the host country through greenfields because they aim to explore strategic assets (i.e., knowledge). Fourth, we control the subsidiary size which is measured by initially taking the natural logarithm of the number of its employees. Large firms are assumed to have a predilection for entry through acquisitions because they have more available resources and capital than smaller companies. Large firms also have a limited timeframe to recruit and train managers (Cho & Padmanabhan, 1995). Fifth, we include a dummy to distinguish between the manufacturing (defined as 1) and service subsidiaries (defined as 0) (Brouthers & Brouthers, 2003). The reason is that manufacturing firms prefer to enter through acquisitions rather than greenfields because they adopt strategies to exploit the lower cost of natural resources in the host country (Chueke & Borini, 2014). Measurement for the variables in the model is summarised in Table 1.

Table 1: Measurement of Variables in the Model

Variables	Measurement	Reference
Dependent variable		
Entry mode (Y)	Dummy (1: a full or partial acquisition or a joint venture; and 0: a greenfield investment – wholly owned subsidiary)	Slangen & Hennart (2008)
Independent variables		
Formal institutional distance	Six dimensions identified by Kaufmann et al. (2006); and applied the formula of Kogut and Singh (1988)	Kaufmann et al. (2006); Kogut & Singh (1988)
Formal institutional distance	Six cultural dimensions introduced by Hofstede (1980); and applied by Kogut and Singh (1988)	Hofstede (1980); Kogut & Singh (1988); Slangen & Beugelsdij (2010)
Control variables		
Parent company's age	The difference between the year of the parent firm's founding and 2015	Harzing (2002); Chueke & Borini (2014)
Firm's international experience	The share of international sales to total sales	Zejan (1990)
Subsidiary's R&D intensity	The percentage of subsidiary's R&D expenses in subsidiary's total sales	Vo (2013); Vo & Le Hoang (2017)
Subsidiary size	The natural logarithm of the number of its employees	Cho & Padmanabhan (1995)
Industry type	Dummy (1: Manufacturing, 0: service)	Chueke & Borini (2014)

3.3 *Estimation Method*

With the measurement of the dependent variable shown earlier, we used Probit regression to estimate the effect of the formal and informal institutional distance between Vietnam and the home countries that can impact the choice of the MNEs' entry mode. This specification can be described in the following formula:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \beta_7 X_0 + \varepsilon \qquad (3)$$

where Y is the dependent variable – the choice of MNE's entry mode,

$$Y = \begin{cases} 1\text{: Acquisition/joint venture} \\ 0\text{: Greenfield} \end{cases}$$

β_0 is the intercept, the value of Y when X is zero,
$\beta_{1,2}$ is the regression coefficients of the independent variables,
$X_{1,2}$ is the observed values of the independent variables,
$\beta_{3\rightarrow7}$ is the regression coefficients of the control variables,
$X_{3\rightarrow7}$ is the observed values of the control variables,
ε is the error term of the model.

4. Empirical results

4.1 *Descriptive Statistics and Correlation*

Table 2 illustrates the means, standard deviation and correlations for the choice of the MNEs' entry mode. Our measurement of the choice of the MNEs' entry mode was dichotomous thus, the Probit estimates were considered to be appropriate.

In preparing the data for the regression analysis, we performed the usual tests to obtain the reliable estimates (Hair, Hult, Ringle, & Sarstedt, 2014). The latter yielded satisfactory results: neither heteroskedasticity nor non-normality was an issue (White and Jarque-Bera tests with p=0.29 and p=0.33, respectively). The maximum value of the correlation coefficients was 0.302 which is well below the threshold of 0.80 thereby, indicating that there were no issues with multicollinearity (Hair et al., 2014). We also tested for possible biases caused by collinearity among the variables by calculating the variance inflation factor (VIF) for each of the regression coefficients (see Table 2). The VIF values for all the variables noted in the model was below 3.0, well below the cut-off value of 5.6 recommended by Hair et al. (2014). The likelihood ratio tests of the chi-square distributions for all the models were significant thereby,

Table 2: Mean, Standard Deviation and Correlation: The Dependent Variable is the Choice of MNE's Entry Mode (n=82)

Variables	VIF	Mean	Std.Dev.	EM	FD	ID	PC	IN	SI	SS	MS
EM		0.420	0.101	1.000							
FD	2.01	1.822	0.906	0.148*	1.000						
ID	2.11	1.916	1.002	0.228***	0.041	1.000					
PC	1.95	6.288	3.242	-0.061	-0.058	0.053	1.000				
IN	2.08	39.76	9.070	0.011**	-0.141	-0.086	0.133	1.000			
SI	1.87	35.29	12.01	-0.132*	0.192	0.063	0.293*	0.009	1.000		
SS	1.20	3.849	1.271	0.096	-0.083	0.247	0.002	0.056	0.302*	1.000	
MS	1.02	0.365	0.091	0.045	0.024	0.220	0.094	0.048	0.149*	0.157	1.000

Note: EM = Choice of MNE's entry mode, FD = Formal institutional distance (regulative distance), ID = Informal institutional distance (cultural distance), PC = Parent company's age (log), IN = Internationality (%), SI = Subsidiary's R&D intensity (%), SS = Subsidiary's size (log), MS = Manufacturing/services. *, ** and *** indicate statistically significant levels at 10%, 5%, and 1%, respectively.

indicating that the final model fitted the data significantly better than a model without any predictors.

4.2 Findings

The results obtained from the Probit regression analyses are summarised in Table 3. The regression results offer two conclusions. Firstly, the various fit parameters show that the models we use fit the data increasingly well. Secondly, the choice of the MNEs' entry mode as shown in Table 3 indicates that the log likelihood value has improved from -186.02 in Model 1 to -82.17 in Model 4. Further, the estimates remain robust in terms of sign and significance levels. Model 1 includes control variables and a constant. The Pseudo-R^2 has improved from 32.6 per cent in Model 1 to 38.3 per cent in Model 4. The parameter estimates remain robust in terms of sign and significance level. The two effects of institutional distance – formal institutional distance and informal institutional distance are included separately. The results show that both the formal and informal institutional distances between Vietnam and the home countries are positively and significantly associated with the choice of the MNEs' entry mode into Vietnam (β = 0.041, p<0.05 for formal institutional distance; β = 0.02, p<0.05 for informal institutional distance). The results can be explained through the informal institutional distance perspective. When making comparisons between the greenfield subsidiaries and acquired subsidiaries, it is noted that the latter is able to communicate easily with the locals hence, more likely to obtain knowledge of the local organisation that is beneficial to the MNEs. Conversely, the greenfield subsidiaries have less cultural knowledge to draw upon when communicating with the local peers hence, inhibiting efforts to gain legitimacy (Meyer, 2001). In looking at the formal institutional distance, results show that the greenfield subsidiaries suffered many challenges. This implies that the MNEs need to adapt to the requirements, rules and regulations of the local government and local markets with possibilities of being discriminated by the local government (Dikova, 2012; Delios & Henisz, 2003). Clearly, the acquired subsidiaries can reduce the impact of the environmental uncertainty because they tend to have more familiarity with the formal institutions besides having close relationships with the government (Slangen, 2011; Kostova & Zaheer, 1999).

Model 4 includes both the formal and informal institutional distances between Vietnam and the home countries of the MNEs. The

Table 3: The Effect of Formal and Informal Institutional Distances on the Choice of MNE's Entry Mode in Vietnam (Probit estimates)

	MNE's entry mode choice				Marginal effect (dy/dx)
	(1)	(2)	(3)	(4)	
Intercept	0.32 (0.10)***	1.17 (0.16)***	1.26 (0.29)***	3.43 (0.97)***	
Control variables					
PC	-0.07 (0.06)	-0.08 (0.05)	-0.07 (0.101)	0.09 (0.09)	0.03 (0.06)
IN	0.12 (0.06)**	0.13 (0.06)**	0.19 (0.10)**	0.15 (0.07)**	0.08 (0.039)**
SI	-0.47 (0.20)***	-0.45 (0.17)***	-0.35 (0.12)***	0.28 (0.10)***	-0.15 (0.07)**
SS	0.31 (0.10)***	0.28 (0.09)***	0.29 (0.12)***	0.37 (0.01)***	0.16 (0.01)***
MS	-0.01 (0.02)	-0.02 (0.03)	-0.01 (0.02)	-0.01 (0.01)	-0.00 (0.01)
Main variables					
FD		0.041 (0.021)**		0.106 (0.05)**	0.070 (0.01)**
ID			0.020 (0.01)**	0.094 (0.01)***	0.030 (0.01)***
N	82	82	82	82	
Pseudo-R^2	0.326	0.349	0.338	0.383	
Log likelihood	-186.02	-145.12	-111.61	-82.17	
*p*_value	0.002	0.000	0.000	0.000	

Note: Formal institutional distance, ID = Informal institutional distance, PC = Parent company's age (log), IN = Internationality (%), SI = Subsidiary's R&D intensity (%), SS = Subsidiary's size (log), MS = Manufacturing/services. Standard errors are listed in parentheses. * p<0.1, ** p<0.05, and *** p<0.01.

model shows that both are positively and significantly related to the MNEs' choice of entry mode. The result also shows that the MNEs investment in Vietnam would more likely be through acquisitions (or joint-ventures) rather than greenfield investments when both the formal institutional distance (β = 0.106, p<0.05), and informal institutional distance (β = 0.094, p<0.01) between Vietnam and the home countries is large. Taken together, it can be concluded that H_1 and H_2 cannot be rejected due to the evidence noted. The results generally support the transaction cost theory thereby, implying that MNEs often need local resources such as institutional or market knowledge that is embedded within existing organisations (local firms). The last column in Table 3 presents the marginal effect of the formal and informal institutional distance between Vietnam and the home countries on the choice of the MNEs' entry mode. The marginal effect analysis shows that as the formal and informal institutional distance between Vietnam and the home countries increases, the possibility of the MNEs investing in Vietnam through acquisitions also increases.

Here, only the significant control variables are presented. The significant results shown for the control variables are in line with the predictions of the transaction cost theory and consistent with the findings of previous studies (Meyer & Estrin, 2001; Dikova, 2012; Brouthers, 2002). This study has shown that more international MNEs in the sample population employed the less-integrated entry mode (an acquisition or joint-venture) over a more-integrated mode (a greenfield) (β = 0.15, p<0.05). Table 3 shows that a higher R&D intensity has a significant and positive effect on the choice of the MNEs' entry mode into Vietnam (β = 0.28, p<0.05). This result is consistent with the prediction of the transaction cost theory which states that technologically intensive MNEs have a preference for greenfields investment in Vietnam instead of acquisitions or joint-ventures (Brouthers & Brouthers, 2003; Dikova, 2012). In line with the transaction cost theory argument, Table 3 reveals that subsidiary size is positively associated with entry mode through acquisition establishment (or joint-venture) rather than through greenfield establishment (β = 0.37, p<0.01) (Dikova, 2012; Chueke & Borini, 2014).

4.3 Robustness Analyses

In order to explore the robustness of the above findings affecting the choice of the MNEs' entry mode into Vietnam, we perform two additional analyses which are reported in Table 4.

Our results are determined for robustness in measuring the dependent variable i.e., the choice of the MNE's entry mode. We estimated the Logit model by using the same control variables and main variables as our Probit model as noted in Panel A. This does not affect the regression results (β = 0.091, p<0.05 for formal institutional distance, and β = 0.080, p<0.01 for informal institutional distance). As an additional analysis for robustness as shown in Panel B, we alternatively measure formal (regulative) and (cultural) informal institutional distance by using absolute scores that were provided by Xu, Pan, and Beamish (2004) (for a comprehensive review, see Xu et al., 2004). The Probit regression revealed that the results did not alter (β = 0.232, p<0.05 for formal institutional distance, and β = 0.142, p<0.05 for informal

Table 4: Robustness Analysis of the Choice of MNE's Entry Mode in Vietnam

	Original results	Additional tests	
	Initial results extracted from Table 2 [Model (4)]	Panel A: Logit regression	Panel B: Alternative measure for formal and informal institutional distances
Intercept	3.43 (0.97)***	2.68 (0.62)***	1.25 (0.62)**
Control variables			
PC	0.09 (0.03)***	0.07 (0.03)***	0.16 (0.05)***
IN	-0.15 (0.07)**	-0.12 (0.06)**	-0.09 (0.05)**
SI	-0.28 (0.10)***	-0.34 (0.12)***	-0.08 (0.04)**
SS	0.37 (0.01)***	0.29 (0.05)***	0.22 (0.12)*
MS	-0.01 (0.01)	-0.01 (0.09)	-0.01 (0.02)
Main variables			
FD	0.106 (0.05)**	0.091 (0.04)**	0.232 (0.12)**
ID	0.094 (0.01)***	0.080 (0.02)***	0.142 (0.07)**
N	82	82	82
Pseudo-R^2	0.383	0.372	0.349
Log likelihood	-82.17	-87.69	-96.22
*p*_value	0.000	0.000	0.000

Note: Formal institutional distance, ID = Informal institutional distance, PC = Parent company's age (log), IN = Internationality (%), SI = Subsidiary's R&D intensity (%), SS = Subsidiary's size (log), MS = Manufacturing/services. Standard errors are listed in parentheses. * p<0.1, ** p<0.05 and *** p<0.01.

institutional distance). The two additional analyses further confirm that the results are robust.

5. Discussion, Conclusion and Further Research

This study advances our understanding of the choice of the MNEs' entry mode as investors in a transition economy – in this case, Vietnam. We built on the transaction cost theory to predict a linear relationship between the institutional distance of Vietnam and the home countries and the choice of the MNEs' entry mode. Building on a dataset of 82 multinational subsidiaries in Vietnam, the empirical results show that the MNEs are more likely to enter into the transition economy of Vietnam via acquisitions rather than greenfield investments. This occurs when both the formal and informal institutional distance between Vietnam and the home countries are large. This outcome suggests that the institutional distance between a host country with a transition economy and the home countries is an important element to take into account when MNEs decide on investing in a transition economy that has a high level of uncertainty. Given these results, it can be said that this study contributes to the academic discussion and implication about the choice of the MNEs' entry mode in several ways.

First, this study finds that when the formal institutional distance between a transition country – Vietnam and the home countries is large, the MNEs are likely to choose acquisitions for entering Vietnam. This result is consistent with the transaction cost theory and previous studies which stressed that the distance between a home nation and a host nation (with a transition economy) becomes larger because the institution in the transition country carries a high level of uncertainty (Hennart & Park, 1993; Delios & Henisz, 2003; Dikova, 2012). Due to the differences of the legal environments between the home and host country, MNEs need to adapt to the requirements, rules and regulations of the local government and local markets with possibilities of being discriminated by the local government (Dikova, 2012; Delios & Henisz, 2003). MNEs investing through acquired subsidiaries can reduce the impact of the environmental uncertainty because acquired subsidiaries are more familiar with the formal institutions thereby establishing a close relationship with the local partners and government (Kostova & Zaheer, 1999). The result of this study is in line with the argument of Harzing (2002) who stated that acquisitions enable MNEs to gain local legal knowledge hence, enabling the MNEs to be locally responsive. In the context of this study, the Vietnamese government's policy revolution has significantly increased the support for foreign investors. These MNEs have been eased in terms of their integration with domestic firms.

Second, this study finds that MNEs are more likely to choose acquisitions instead of greenfield investments when the informal institutional distance between Vietnam and the home countries is large. This result is also consistent with the argument of previous studies which stated that when the informal institutional distance between the home and host countries is high, the interaction with local actors would also be particularly crucial. Such interactions strengthen the importance of generating links with the local partners which assists in the effort to gain local legitimacy in the host country (Meyer, 2001; Boyacigiller et al., 2004). In other words, entering into a transition nation incurs a high level of cultural dissimilarity therefore, MNEs and the managers need further understanding of the values, norms and cognition of such countries (Meyer & Estrin, 2001). Since intensive cross-cultural communication is crucial, MNEs prefer acquisition establishments more than others.

The limitations of this study can serve as routes for follow up research. Firstly, the data used in this study are collected at the MNEs' affiliate level. Although several characteristics of the parent firm are included in this study, other characteristics of the parent firms can affect the MNEs' foreign investment strategy due to different institutional contexts. For example, operating in a country with high institutional dissimilarity, parent firms with high international experiences can seek greater returns thereby reducing the risk of operating abroad (Chueke & Borini, 2014). These issues are not captured by the current study hence, future research should take as many parent company characteristics as possible into account so that implications for the MNEs' entry strategy can be better developed. Secondly, the current study does not capture the perception of the managers at their headquarters so as to understand the effect of the institutional distance between the host and home countries on the choice of the MNEs' entry mode (Slangen, 2011; Hennart & Slangen, 2015). Thus, it is recommended that the role of the different managers at the different levels based in the headquarters be considered. Some managers may be granted a low decision-making autonomy within the local market and this can limit their engagement activities with the local partners (Vo, 2013). An outcome of this nature can impede the level of local responsiveness and indirectly, decrease the absorption of local knowledge (Vo & Le Hoang, 2017). In addition, this study has no input which explains the role of the headquarters in shaping and designing the local networks since headquarters are expected to manage the complexities of multiple engagements (Meyer, 2004). Therefore, this study is not able to distinguish the role of the headquarters yet, in terms of responding to the different transition economies with the different institutional contexts. In this regard, future research should therefore take into account the entry activities of the MNEs at multi-levels.

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