A PARADOXICAL RELATIONSHIP BETWEEN CULTURAL DISTANCE AND FOREIGN MARKET ENTRY STRATEGY: A CASE OF KOREAN COMPANIES

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ABSTRACT

There exit a paradox with respect to the relationship between cultural distance and foreign entry mode selection. Some studies argue that international firms will choose cooperative modes of entry when entering culturally distant foreign markets due to the accompanying risk and uncertainty. Other studies argue that international firms will choose wholly owned subsidiaries when entering the same markets instead of cooperative modes. Firms prefer cooperative modes when entering culturally distant foreign markets, because they attempt to minimize their resource commitments by utilizing cooperative modes(joint ventures or strategic alliances). The cooperative modes are considered as a way of bridging cultural distance. Transaction cost economics, however, helps to explain the preference to wholly owned subsidiaries. High cultural distance may increase the costs of direct control and communication, and costs associated with cooperative modes may be even higher. Past studies of the relationship between cultural distance and entry mode selection have provided contradictory results. Several studies have found evidence that firms may select wholly owned modes of entry when cultural distance is high, and other studies the opposite ones supporting cooperative modes. In this study we will attempt to find a new evidence on the relationship between cultural distance and entry mode selection with the sample of Korean firms.

Keywords: *Cultural Distance, Foreign Market Entry, Cultural management, International Business Strategy*