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Article

Entry mode of MNEs in Vietnam's agricultural sector in the context of a free trade agreement: Role of institutional distance

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Abstract: This paper focuses on studying the impact of institutional distance between home and host countries on the entry mode choice of multinational enterprises (MNEs). Based on theories of transaction costs and institutional theory, we predict the trend of choosing investment forms of wholly-owned enterprises (WOEs) and joint venture enterprises (JVEs) in the agricultural sector of Vietnam in the context of free trade agreement implementation. The data of 364 MNEs from 22 different nations that directly invested in the agricultural sector of Vietnam in the period 1996–2019 were extracted from Worldwide Governance Indicators (WGI), which is provided by World Bank. An empirical investigation has employed logistic regression. The results show a positive relationship between institutional distance with regard to rule of law and regulatory quality and WOE choice. Furthermore, the entry mode choices of MNEs in Vietnam's agricultural sector are also noticeably influenced by the implementation of freedom trade agreements (FTAs).

Keywords: institutional distance; entry mode; Vietnam's agriculture sector; free trade agreement implementation

1. Introduction

Vietnam has a high level of international economic integration as a result of actively negotiating and participating in a number of freedom trade agreements (FTAs) with other countries, especially new-generation FTAs which have been negotiated and signed in recent times and contain enormous scope and a high level of liberalisation. As of June 2023, Vietnam officially joined 19 FTAs. In addition, Vietnam is currently negotiating two FTAs. Vietnam has FTA partnerships with 56 economies (55 countries and one territory). Vietnam's signing of bilateral and multilateral FTAs has enabled Vietnamese enterprises to expand their markets and gain access to regional and global markets (WTO-FTA, 2021). FTAs have made positive improvements in attracting foreign investment into Vietnam and have stimulated the enhancement of the administrative institutions and business environment. FTAs helped to separate changes in an institutional setting that FTAs largely drove. Institutional change is assumed to trigger economic change with the reflection on economic performance. While the impact of traditional FTAs on long-term economic performance is at best ambiguous, "new generation" agreements an FTA have influenced institutional setting. The state's failure to properly implement some requirements can be substituted by a market shift that activates other actors such ass businesses, including foreign invested companies. Although Vietnam has been progressively promoting the development of the industrial and services sectors, agriculture still plays a critical role in the economy. Agricultural sector accounts for approximately 20% of GDP and creates jobs for 60%

of the population living in rural areas. Furthermore, agriculture is also the pedestal or foundation of Vietnam's economy. However, although FDI inflows into Vietnam's other industries have increased sharply, FDI into Vietnam's agricultural sector has been minimal, representing only 1.7% of the total number of FDI projects and 1% of the total FDI capital into Vietnam. This goes against the trend of FDI into other sectors of Vietnam and goes against the world's FDI inflows into agriculture (Mukhtarov, 2019). Vietnam has gone through a significant economic transition process, but there are still weaknesses in the country's institutions, which remain significant obstacles to business (Nguyen et al., 2019). Despite the positive changes to investment that the Enterprise Law introduced in 2020, the level of competitiveness and 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 local partners in these economies also differs widely (JETRO, 2019). Economic reforms had been implemented in the transition process, but institutions reforms were rejected (Dut et al., 2018). Such a situation bears additional uncertainties and complexities that can affect FDI flow in agriculture in Vietnam, where the risks are higher than for other investment sectors. As a result, the attraction of FDI into this sector should be given adequate attention with appropriate policies developed. It is therefore necessary to reduce the country distance to encourage different entry modes in the agricultural sector in Vietnam. Therefore, this study provided evidence on the influence of institutional distance on the entry mode choices of multinational enterprises **(**MNEs**)** in Vietnam's agricultural sector. Research results shown the larger the rule of law and regulatory quality distance between home and host countries the more likely MNEs in the Vietnamese agricultural sector choose wholly owner enterprise (WOE) rather than joint venture enterprise (JVE). In addition, the research results confirmed that participating in FTAs helps reduce risks and trade barriers between countries while expanding markets, but this factor still has an impact on motivating MNEs to choose to invest under WOE. At the same time, it also shown that the larger the investment scale of FDI projects in agriculture, MNEs are more likely to choose WOE than JVE. Several implications were suggested for the Vietnamese Government in perfecting institutions to increase attraction of foreign direct investment in the agricultural sector.

2. Theoretical background and hypotheses

2.1. Entry mode

The internationalisation process of enterprises is divided into different stages according to choice of investment location, mode of entry, degree of ownership, and level of capital control in the foreign market (Beugelsdijk, 2018). Among these stages, the selection of entry mode is an important decision because it is the method used by enterprises to penetrate foreign markets (Brouthers and Hennart, 2007). More specifically, it is an agreement on how to transfer a business's skills, technology, know-how, and resources in a foreign market (Root, 1994). When being about to enter a new oversea market, MNEs consider the degree of ownership of their operations (Lee et al., 2014). In the international business literatures, entry modes are classified into two main types, namely: non-equity-based (indirect investment such as export and contractual agreements) and equity-based (direct investment) (De Villa, 2015). In the

equity-based entry mode, MNEs may select wholly-owned subsidiaries (WOS) or shared ownership with partners by forming joint ventures with major, equal, or minor contribution (Lee et al., 2014). Vietnamese law of investment categorised FDI into two forms: wholly-owned enterprises (WOE) and joint venture enterprises partially owned through capital contribution or share acquisition (JVE) (The Office of the National Assembly, 2020). Each entry mode is defined by different levels of control, ownership, risk, and different commitments of resource-and-information control (Dikova, 2014). In terms of control, commitment, and risk, WOE is selected when a MNE desires to achieve the highest level of control based on fulfilling the highest level of commitment but facing the highest level of risk. In addition, WOE provides MNEs with an opportunity to expand quickly independently, so it is unnecessary to cooperate with any partner whose decision and behaviour rules are not well known or understood by the foreign firm. However, WOE requires more time to set up the business and more complex information requirements (Lee and Lieberman, 2010). Meanwhile, JVE allows the transfer of strategic assets from the headquarters to have a certain level of control over their foreign subsidiaries thereby, gain benefits from these subsidiaries but the level of risk can be reduced (Hennart, 1993). JVEs reduce the investment and commitment of resources such as equity capital and opportunity costs of managerial talents sent to run the foreign business. Several studies on the determinants of foreign investment choice, including the transaction cost theory (Brouthers and Hennart, 2007) have emphasised that the selection of entry mode was considered based on the predicted costs that firms must pay to enter the foreign market. Therefore, it results from a decision-making process that compares the costs and cost-amending associated with alternatives. That means entry mode choice, which helps minimise the transaction cost. However, transaction costs are related to many factors, such as differences in institutions. Institutional theory (Scott, 2014) emphasises that the institutional environment is a determinant of a firm's behaviour and structure, as it must adapt to the local regulations of host countries. Institutional theory requires MNEs to understand the nature of the institutional environment and overcome institutional differences to adapt to the local market. Eclectic theory (Dunning, 2019) proposes that an enterprise's selection of investment forms is based on factors such as ownership advantage, location advantage, internalisation advantage, institutional conditions, and government intervention. MNEs face multiple institutional environments, and in order to maintain legitimacy, they have to comply with the different frameworks of each host country (Kostova and Zaheer, 1999). Therefore, this research combines two theories and empirical studies to better explain the factors referred to.

2.2. Institutional distance

Institution and institutional distance are topics commonly covered in studies on entry mode. Institutional distance reflects institutional dissimilarity between the host and home countries (Kostova and Zaheer, 1999). Institution includes attributes of legislation, regulation, and legal systems that condition freedom of transacting, security of property rights, and transparency of government and legal processes and includes the process by which governments are selected, monitored, and replaced, governments' capacity to effectively formulate and implement solid policies, and the

extent to which citizens and governments respect the institutions that govern economic and social interactions (Kaufmann and Mastruzzi, 2004). Voice and accountability reflect key dimensions of democracy of a country. Democratic institutions help to control for the use of power by government, ensuring that government policies including those for innovation are well aligned with the interest of innovators and the public. Democracies can protect property and facilitate human development (Kaufmann et al., 1999), which in turn encourages investment in innovation. Secondly, political stability affects economic growth by influencing investment in physical and human capital (Aisen and Veiga, 2013). A stable political environment reduces uncertainty and encourages innovators to take new innovative initiatives. Thirdly, effective governments can provide high quality civil services, such as education, which facilitates knowledge diffusion and human development (Kaufmann et al., 1999). Fourthly, a high-quality regulatory framework reduces agency and transaction costs, helps firms overcome information asymmetries, and protects intellectual property (World Bank, 2010), thereby promoting innovative activities. Fifthly, the rules of law are well-defined and transparently encourage investment, entrepreneurship and innovative activities. Laws on protection of intellectual property rights, for example, prohibit non-rights holders from using proprietary knowledge and thus limit opportunities for imitation (Maskus, 2000). Distance reflects the difference in the development of governance environment between the host and the home country. MNEs must adapt and conform themselves with the differences of the institutional environment to establish business legitimacy and ensure subsequent business success. Institutional distance is used to test if institutions affected entry mode (Brouthers, 2002). Institutional distances are measured by factors such as country risk, legal distance (regulatory dimension), attitudes regarding requesting government benefits, and corruption. From an economic perspective, institutional distance amplifies the difficulty and cost- consuming of practical transferring home-based internal resources, procedures, and management practices to the host country (Chen and Hennart, 2004). The MNEs know better how to cope with corrupt government officials, political issues, and institutional voids and thus choose JVE. In contrast, MNEs in developed countries invest in the transition economy using WOE if institutional distances are high (Dut et al., 2018). Generally admitted in the theory, the probability of WOE is expected to be higher with an increasing formal institutional distance (Arslan and Larimo, 2011). Based on these arguments, the study formulates the following hypothesis:

Hypothesis H_{1a}: The greater the control of corruption distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

Hypothesis H_{1b}: The greater the government effectiveness distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

Hypothesis H_{1c}: The greater the political stability and absence of violence distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

Hypothesis H_{1d}: The greater the regulatory quality distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

Hypothesis H_{1e}: The greater the Rule of law distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

Hypothesis H_{1f}: The greater the Voice and accountability distance between home and host countries is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

2.3. Investment size

Investment is the next factor mentioned in the selection of entry mode of MNEs. It is defined as the assets or start-up capital that the MNEs transfer into the host market (Brouthers, 2002). According to transaction cost theory, the larger the size of the invested capital is, the higher the costs of entering and exiting the market and the financial and operational risks will be (Agarwal, 1992). Moreover, enterprises with little capital need to implement JVE because they do not want to share advanced knowledge and technology with business partners and, in this way, they can limit the partners' opportunistic behaviours. Thus, the more significant the investment size is, the better the MNE will be able to deal with opportunism and the higher the probability that the costs will be minimised is, and as a consequence, the larger the likelihood of complete control by WOE is (Zhang and Luo, 1992). On the other hand, MNEs with larger investment sizes are more likely to have diverse resources which can be applied effectively to new market entry and larger firms have a greater capacity to establish their own operational business in a foreign country. Therefore, project size is considered to positively influence the choice towards WOE (Agarwal, 1992). From the above arguments, the following hypothesis is proposed:

Hypothesis H_2: The greater investment size is, the greater the probability that MNEs in the agricultural sector will choose WOE rather than JVE is.

2.4. FTA

Free trade is referred in this study as comprising factors such as host country tariffs and compliance costs of importing and exporting, as well as control over movement of capital and people across borders (Tim and Milner, 2008). One of measures in expanding international trade liberalisation is the signing of free trade agreements (FTAs) between at least two countries to reduce trade barriers and promote trade in goods, services, and investment between those countries. It is considered a national agreement that seeks to prioritise trade or services between two or more countries (Dür, 2014). Accordingly, countries will follow the roadmap of reducing and eliminating tariff and non-tariff barriers to establish a free trade area. The FTA is a commitment with a high degree of credibility and it demonstrates the determination of governments towards market openness and free trade. This reduces investment risks and facilitates the reduction of costs and information asymmetries for multinationals when they enter the market (Tim and Milner, 2008). In addition, a distinction of the FTA is that the commitments in the framework of the agreement affect and bring benefits to the participating countries and signals to third parties the presence of a more favourable investment environment. It promotes companies to move capital flows to these countries (Kerner, 2014). According to the theory of transaction cost,

in countries with low levels of risk and political uncertainty, MNEs prefer WOE to JVE (Kai, 2018). There is a long-run equilibrium relationship between trade openness and FDI for the economy and its sectors, government policies should focus not only on promoting the level of trade openness in the economy but also on the magnitude of the degree of openness in the agricultural and the industrial sectors (Tahmad, 2018). From the above arguments, the research hypothesis is proposed.

Hypothesis H_3: In the condition that the home country and the host country have signed an FTA, the probability that MNEs in the agricultural sector will choose WOE rather than JVE is greater.

3. Research methods

3.1. Data

The study uses a dataset of 704 MNEs that invested in the agricultural sector of Vietnam from 1996 to 2019, provided by the Ministry of Agriculture and Rural Development (2020), with information on the mode of entry, representatives, country, line of business and revenue. The identification of selected enterprises for analysis is based on: (i) Enterprises investing in the agricultural sector from 1996 (after the Law on Foreign Investment took effect) to 2019 (before the outbreak of the COVID-19 epidemic); (ii) enterprises whose ownership structure changed by no more than 10% during the studied period; (iii) enterprises investing in the agricultural sector through WOE and JVE; (iv) home countries with data on the Hofstede and WGI cultural index. Finally, the sample consists of 364 enterprises from 22 different countries included in the analysis (**Table 1**), in which the sample structure includes FDI enterprises in the agricultural sector of Taiwan (24.73%), Japan (11.81%), South Korea (11.54%), Thailand (6.59%), Singapore (6.32%) and the rest are other countries. The foreign direct investment flow in Vietnam's agricultural sector over the past three decades has mainly come from 22 countries around the world divided into five regions: East Asia (54.67%), Asia (19.51%), Europe (15.93%), North America (5.22%), Oceania (4.67%).

The percentage of MNEs investing in agriculture via WOE was 79.67%, outnumbering those which chose JVE (20.33%). MNEs in Vietnam agriculture sector are scattered in seven agricultural economic regions of the nation, of which the most focus was on the Southeast region (26.42%), followed by the South Central Coast (18.00%). The third and fourth ranks belonged to the Central Highlands (16.17%), and the Mekong River Delta (14.81%) respectively (**Table 2**). These four areas have a tradition of agricultural development, favorable traffic conditions, high level of intensive farming, commodity-oriented agricultural production, and heavy use of agricultural machinery and materials. These MNEs are originally from countries with short geographical distances to and small economic gaps with Vietnam. This sector began to globally attract capital flows from further more developed and distant countries.

Table 1. FDI in Vietnam agriculture by country.

No	Country	Samples	Percentage	No	Country	Samples	Percentage
1	India	6	1.65%	12	Japan	43	11.81%
2	Australia	15	4.12%	13	France	28	7.69%
3	Belgium	1	0.27%	14	Philippine	1	0.27%
4	Canada	4	1.1%	15	Singapore	23	6.32%
5	Taiwan	90	24.73%	16	Thailand	24	6.59%
6	Netherlands	8	2.2%	17	Switzerland	2	0.55%
7	South Korea	42	11.54%	18	China	9	2.47%
8	Indonesia	1	0.27%	19	United Kingdom	3	0.82%
9	Malaysia	16	4.4%	20	Bristish VirginIsland	20	3.30%
10	United State	15	4.12%	21	Hong Kong	14	3.85%
11	Russia	6	1.65%	22	New Zealand	1	0.27%
					Total	**364**	

Table 2. FDI in Vietnam agriculture by region.

No	Region (host country)	Samples	Percentage
1	East Asia	199	54.67%
2	Europe	58	15.93%
3	North America	19	5.22%
4	Oceania	17	4.67%
5	Southeast Asia	71	19.51%
No	**Region (home country)**	**Samples**	**Percentage**
1	Northeast and Northwest	34	9.34%
2	Red River Delta	33	9.07%
3	North Central Coast	15	4.12%
4	South Central Coast	67	18.41%
5	Central Highland	65	17.86%
6	Southeast	94	25.82%
7	Mekong River Delta	56	15.38%

3.2. Research scale and analytical methods

Measurement for the variables in the model is summarised in **Table 3**.

The logistic regression method was performed by IBM SPSS 22 software to evaluate the influence of country distance on the selection of entry mode in agriculture as the dependent variable has two values: 1 corresponding with WOE and 0 corresponding with JVE (Slangen and Hennart, 2008). This technique is suitable for considering the relationship between the independent and dependent variables by evaluating the probability of choosing WOE or JVE by the enterprise instead of the independent assessment. The regression coefficient estimates the impact of institutional, cultural variables on the probability of choosing an investment choice. The positive correlation coefficient shows that the independent variables tend to increase the probability of choosing WOE over JVE and vice versa. The purpose is to

evaluate the appropriateness of the research model through checking the model's errors such as multicollinearity (VIF coefficient), autocorrelation and variable variance.

Table 3. Measurement of variables in the model.

Abbreviation	Variable	Explanation	Measurement	Reference	Sources
Dependent variable					
EoM	Entry mode	Form of investment is displayed on the investment registration license	Dummy (1: WOE (full ownership); and 0: JVE (partial ownership))	(Slangen and Hennart, 2008)	http://solieufdi.mard.gov.vn
Control variables					
FTA	Free trade agreements	The participation in FTAs by investing countries and Vietnam is determined based on the effective date of 13 FTAs that Vietnam has signed	The investing countries that have entered into an FTA with Vietnam have the value of 1, and those that have not joined any FTA with Vietnam have a value of 0	(Kai, 2018)	https://wtocenter.vn/fta.
LnVen	Investment size	Size of the investment capital is measured in millions of USD	Logarithm form of the size of the investment capital is measured in millions of USD	(Zhang et al., 2015)	http://solieufdi.mard.gov.vn
Independent variables					
CoC	Control of corruption	The degree to which public power is exercised for private gain	$ID_{aj} = \sum_{i=1}^{n} \left\{ \frac{(I_{ia} - I_{ij}}{V_t} \right\} /6$ In this formula, ID_{aj} reflects the institutional distance between two studied countries, host (a) and home (j); I_{ia} is the value for the home country j, I_{ij} is the value for the host country. Variance in the equation is V_t. The total is divided by 6. This study uses the Worldwide Governance Indicators (WGI) provided by World Bank during 2016–2019	(Contractor et al., 2014)	https://info.worldbank.org/governance/wgi/
GoE	Government effectiveness	The credibility of the government's commitment to policies, the quality of the bureaucracy, the competence of civil servants and public service provision.			
PoV	Political stability and absence of violence	The extent by which violent means (political violence or terrorism) destabilize or ruin the government of a country.			
RQ	Regulatory quality	The quality of the actual government policies, such as the degree of regulation of foreign trade and the incidence of market-unfriendly policies.			
RoL	Rule of law	The level by which civilians trust in the law and comply with the rules of their society. It is reflected via the quality of the legal system and the enforceability of contracts.			
VaA	Voice and accountability	The level by which inhabitants in a country can be engaged in government selection, and the degree governments are monitored and held accountable for their actions.			

4. Research results

4.1. Descriptive statistics and correlation

Table 4 provides descriptive statistics and correlation analysis, showing that the correlation coefficients of all variables are less than 0.9. Furthermore, the VIF coefficients' values of are all less than 10, the VIF coefficient of the control of

corruption, government effectiveness, political stability and absence of violence, regulatory quality, rule of law and voice and accountability variables reach > 2.0. However, the value of VIF is considered as a problem in regression analysis only when it is more than 10, usually a VIF of 5 or above indicates that multicollinearity problem can appear (Neter et al., 1990). Therefore, it can be concluded that there is no multicollinearity in this study.

Table 4. Correlation analysis results.

	Mean	Std. E	VIF	EoM	FTA	LnVen	CoC	GoE	PoV	RQ	RoL	VaA
EoM	0.79	7.532		1	0.081	0.094	0.020	0.035	−0.087	0.141**	0.084	0.039
FTA	0.73	0.443	1.241		1	0.017	0.017	−0.059	0.169**	−0.192**	−0.202**	−0.383**
LnVen	7.75	1.483	1.023			1	0.069	0.110*	0.025	0.101	0.043	0.022
CoC	1.42	0.873	5.593				1	.883**	0.015	0.679**	0.807**	0.499**
GoE	1.31	0.735	5.265					1	−0.024	0.689**	0.806	0.510
PoV	0.62	0.539	1.104						1	−0.080	−0.093	−0.236**
RQ	1.63	0.751	2.112							1	0.640**	0.432**
RoL	1.42	0.701	4.009								1	0.650**
VaA	1.96	0.793	2.042									1

N = 364, *p < 0.1, **p < 0.01, ***p < 0.001.

4.2. Logistic regression analysis result

The mode of entry is a dependent variable with two values attached, so the study used binary logistic regression to test hypotheses according to two models: (1) the model of independent variables and (2) the overall model with both independent and control variables. The results of assessing the relevance of the research model through the value of 2log-likelihood in the studied models tend to decrease significantly, indicating that the regression results are promising (Hair et al., 2014). In addition, the value of pseudo R square-built based on R-square in the model of binary logistic regression has got a significant improvement from model 1 to model 2 and the prediction rate increased from 73.9% to 76.10%, which shows the suitability of the logistic regression model (Hair et al., 2014; Nagelkerke, 1991). In addition, the H_0 of the Hosmer-Lemeshow test is that there is no difference between the actual and forecast values. H_1 is that there is a significant difference between the actual and forecast values. The test results show that chi-square has a value of 9.497, probability is 0.302, H_0 cannot be rejected. Thus, the model has the appropriate format and the data well and was selected for analysis (**Table 5**).

Hypothesis H_{1a} suggests that the larger the control of corruption distance between the home and host countries, the more commonly MNEs investing in the agricultural sector will choose WOE rather than JVE. The estimated results reveal $\beta = -0.506$ and $p = 0.130 > 0.1$, which means that this hypothesis is rejected. Hypothesis H_{1b} states that the government effectiveness distance negatively impacts the choice of entry mode for WOE rather than JVE, which means that when the government effectiveness distance between Vietnam and the home country increases, the tendency to choose WOE becomes less popular. The government effectiveness distance model has $\beta = -0.503$ and $p = 0.199 > 0.1$, meaning that this hypothesis is not accepted. Hypothesis

H_{1c} assumes that political stability and absence of violence distance negatively influences the choice of the investment of WOE than JVE. The analysis results indicate that it has the coefficient $\beta = -0.357$ and $p = 0.137 > 0.1$, which proves that the larger the distance between Vietnam and the home countries, the tendency to choose WOE will decrease and this hypothesis is rejected. Hypothesis H_{1d} suggests a positive relationship between regulatory quality distance and entry mode choice. As the regulatory quality distance between the home countries and Vietnam increases, MNEs tend to choose WOE rather than JVE. The analysis results reveal that coefficient $\beta = 0.749$ and $p = 0.002 < 0.1$ supports this hypothesis. Hypothesis H_{1e} state that a positive relationship between rule of law distance and the linkelihood of MNEs choosing WOE. This hypothesis is supportes as rule of law distance had a positive coefficient that was $\beta = 0.743$ and $p = 0.047 < 0.1$. Hypothesis H_{1f} suggests a negative relationship between voice and accountability distance and the likelihood of a WOE entry mode. This relationship was not supported, as Voice and accountability distance appeared insignificant ($\beta = -0.028$, $p = 0.989 > 0.1$ in the binary logit regression. Hypothesis H_2 of the influence of the investment size on the choice of WOE compared with JVE results in $\beta = 0.148$ and $p = 0.079 < 0.1$. This means the more significant the investment size, the more likely the enterprise chooses WOE over JVE and this hypothesis is accepted. Finally, the hypothesis H_3 of FTAs between Vietnam and the home country having a positive influence on the choice of investment form see the results of $\beta = 0.818$ and $p = 0.007 < 0.1$, for this reason, this hypothesis is supported.

Table 5. Results of testing the binary logistic regression.

Entry mode (1-WOE)/(0-JVE)	**Mode 1**		**Mode 2**	
	β	**Exp(*B*)**	***β***	**Exp(*B*)**
Free trade agreements			0.818**	2.266
Investment size			0.148*	1.160
Control of corruption	−0.516	0.597	-0.506^{NS}	0.603
Government effectiveness	−0.217	0.805	-0.503^{NS}	0.605
Political stability and absence of violence	−0.264	0.768	-0.357^{NS}	0.699
Regulatory quality	0.671**	1.957	0.749**	2.115
Rule of law	0.628*	1.873	0.743*	2.101
Voice and accountability	−0.195	0.823	-0.002^{NS}	0.998
Constant	0.645		−1.036	
2Log likelihood	406.277		395.596	
% correct	73.9		76.1	
Pseudo R square	0.062		0.102	

N = 364, NS: Not significant *$p < 0.1$, **$p < 0.01$, ***$p < 0.001$.

5. Discussion, conclusions and limitation

The study examines the impact of institutional distance on the choice of entry mode by MNEs in the agricultural sector in Vietnam. The specific results of the study are as follows:

Firstly, a more considerable regulatory quality distance has a more positive

impact on the choice of WOE than the JVE by MNEs in the agricultural sector in Vietnam at the significance level of 5%. This result is similar to the conclusions in the studies of Dut et al. (2018) and Vasa and Angeloska (2020). In context of Vietnam agricultural sector, foreign investment flow is influenced by many factors, such as competitive markets, formal and informal institutions, and macro policies. The government and local agencies play an essential role in developing and perfecting the system of laws and regulations and implementing operational supervision to protect the interests of relevant parties. Vietnamese government's policy revolution has significantly increased the support for foreign investors via developing the investment environment and strengthening critical role in attracting foreign investments at the regional and global levels through: expanding and diversifying the production base, facilitating the registration and licensing of investment projects, activating the trade movement and expanding export markets for local industries, and providing some incentives for the foreign investments such as free some taxes and agricultural land pricing.

Secondly, the logistic regression results show a significant and positive relation between institutional distance with regard to Rule of law and WOE choice. From the literature it was expected that this distance limits the transfer of organizational practices due to regulations and restrictions (Brouthers, 2002). Firms are less likely to create value in the host markets and therefore an entry mode of which equity is shared helps to reduce risks. The WOE form helps firms to protect the intellectual property rights, and know-how. Furthermore, the MNEs are more fearful of expropriation of the government as they are cooperating with a local partner. Therefore, firms are lesslikely to trust the judicial system (Cuervo-Cazurra and Genc, 2008) and are willing to enter the market through a joint venture.

Thirdly, the investment size in Vietnam's agricultural sector positively influences the choice of WOE form. This result for investment size is in accordance with findings of Huong and Phuong (2016). This is attributed to the fact that agriculture investment requires a reasonable amount of investment capital in infrastructure, science and technology, research, and development of new products. On the other hand, investment in agriculture is a form of investment that has many risks resulting from being directly affected by weather, natural disasters, and epidemics. Therefore, many MNEs possessing technological competencies and significant capital resources tend to choose WOE to have the highest control over their operations and capital in the host country. That is beneficial for them to enter market via WOE since they can adjust and adapt quickly to the local environment. In addition, most Vietnamese agricultural enterprises have a small scale and limited competitiveness. Therefore, it is difficult for companies with large capital expenditures to find joint venture partners who can meet the requirements and purposes of the project.

Fourthly, the participation in bilateral and multilateral FTAs by Vietnam and the investing countries has a more positive influence on the choice of WOE than JVE. However, it contrasts with Huong et al. (2016), who argued that joining an FTA could encourage companies from more member countries to select JVE form because commitments under an FTA would reduce risks and improve spillover effects to FDI in the form of JVE compared to WOE. Having membership of 19 FTAs, Vietnam is one of the economies with the most FTAs both regionally and globally. Within the

framework of these FTAs, there are commitments to the fair treatment of domestic investors and foreign investors in the establishment, acquisition, expansion, administration, deployment, operation, and business. However, most investment projects in the agricultural sector are hi-tech oriented. Therefore, technology transfer in the form of JVE is not the optimal solution because Vietnam's business environment still has some limitations. Furthermore, the FTAs also play a role in moderating the relationship between the factors of institutional distance and the choosing of WOE. Given trade liberalisation, FTAs participants have improved institutional conditions, and investors perceive lower political risks. This motivates MNEs to choose the higher control method which is WOE (Zhao et al., 2004). Current FTAs provide general mechanisms for cooperation and investment attraction and specific mechanisms in investment activities in the agricultural sector.

Based on the theories of transaction costs and institutional theory to predict the trend of choosing investment forms of WOE and JVE in the agricultural sector of Vietnam in the context of economic integration and trade liberalisation. The findings have evidence of the influence of four studied variables included in the model. As the regulatory quality distance and Rule of law between the host country and the home country reduce, the tendency for WOE to be chosen is enhanced. The surprising result found in this study is the influence of FTAs on WOE selection. Although FTAs help reduce risks and trade barriers between countries while expanding the market, this factor still has a driving impact on the selection of WOE. However, the study results reveal that the Investment size has a positive relation to tendency to choose WOE. From these research results, some implications for the Vietnamese government in attracting foreign direct investment in the agricultural sector are given as follows:

Vietnamese government should complete synchronous and consistent mechanisms and policies, creating a legal corridor for managing the foreign direct investment in Vietnam's agricultural sector. In particular, it is necessary to focus on establishing a common and equal legal ground among all economic sectors to create a stable business environment. A system of policies related to FDI in agriculture in the follow of consistency, publicity, transparency, and predictability should be set up. The management system needs improving. Particularly, mechanism in FDI inspection should be reinforced, decentralized, and controlled based on clear principles and perspectives, towards expansion of the right to take the initiative of departments, agencies, and localities. Land lease policies need consistently applying, putting investors' access to land and other rights for a suitable duration into thorough consideration, introducing policies to encourage agricultural land concentration, facilitating development of major material areas. Furthermore, it is recommended that the National Assembly should revise the Land Law to address existing limitations and issues in respect to leasing out agricultural land to support large-scale agricultural production. Application of scientific and technological innovations in production is necessary to ensure the more effective use of land, including stimulating the development of the agricultural land lease market. Particularly, firms with intensive investment into large-scale commodity-based production should be supported owing to their high implications on local economic development.

Another recommendation that can be made from political economic analysis in Vietnam is to reorient its organizational environment. This means the network of

stakeholders before the selection of the first partner FTAs, negotiations (political and technical process maintained by the main authorities government with support for other group interests) and, finally, respond to FTA commitments (all participation in economic activity). In the current system, there are too many conflicts of interest and overlapping capacities that hinder overall economic development and hinder appropriate institutional arrangements. Better understanding among economic players, mutual enhancement and the common goal of overall economic development and welfare enhancement should be priorities. Finally, agriculture has been affected in several aspects by FTAs. The new generation FTAs were designed to avoid direct impacts on the sector. In some cases, agriculture has been partially excluded from the agreements. In other cases, Vietnamese agriculture has been negatively affected. Regarding the FTAs, agriculture is protected by several transition periods to minimize direct and sudden negative impacts on the sector. However, indirect consequences of broader FTAs could have an impact on Vietnamese agriculture. In most cases analyzed, potential positive consequences are associated with creating incentives for cleaner, healthier and higher quality food products.

The significant limitation of this study is that only secondary data was used for analysis. The data ensures objectivity but restrain the factors included in the research model. 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. Therefore, it is necessary to encourage studies that consider additional factors such as international experience, investment motives, and technology level to provide accurate prediction results for choosing the suitable investment form and the perception of these homeland-based managers so as to further examine the effect of institutional distance.

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