Determinants of Entry Modes: A Review of Literature

MS. SHILPA GARG
Department of Commerce, Delhi School of Economics,
University of Delhi, Delhi 110007
Delhi (India)

Abstract:
International entry mode selection is a crucial decision. This paper has the major purpose of reviewing the literature on factors affecting the choice of entry mode in international business and then looking at the impact of such factors in different kinds of sectors like construction, services, hotel, and manufacturing. By reviewing various studies on firm, country and hybrid factors affecting equity and non equity modes, conclusions have been drawn. Effects of type of firm and nature of product have also been summarized. However, relatively less literature was found which focuses on determinants of non equity modes of entry.

Keywords: *Entry mode choice, FDI, International Business, Service Sector*

1. Introduction

Entry modes are specific forms of entering a target country to achieve strategic goals underlying international presence in that country.

1.1 Types of entry modes

Entry modes differ in terms of level of resource commitment, organizational control, involved risks and expected returns. There are two kinds of international entry modes: equity and non-equity. The equity modes category includes: joint ventures (JVs) and wholly owned subsidiaries (WOSs). WOSs further include Greenfield investment and acquisitions. The non-equity modes category includes export and contractual agreements. The contractual agreements include licensing, franchising and turnkey projects.

1.1.1 Joint ventures

It is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. They exercise control over the enterprise and consequently share revenues, expenses and assets.

1.1.2 Greenfield investment

It is the investment in a commercial office, manufacturing plant, distribution facility or other physical structure in a country where no corporate facilities previously existed i.e. establishment of a new WOS.

1.1.3 Acquisition

Acquisition takes place when one company purchases a minority/majority interest in another company. It is a faster and lower risk mode than Greenfield investment.

1.1.4 Exports

Exporting is the process of selling goods and services produced in one country to other countries. In direct exports there are no intermediaries. Indirect exports include exporting through intermediaries like Export trading companies and Export management companies.

Vol. 2, Issue: 5, June: 2014
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

1.1.5 Licensing

An international licensing agreement allows foreign firms, exclusively/non-exclusively to manufacture a proprietor's product for a fixed term in a specific market. The licensor gives permission to the licensee to use their resources like technology trade mark, managerial skills etc in return for a royalty fee.

1.1.6 Franchising

Compared to licensing, franchising agreements tends to be longer and the franchisor offers a broader package of rights and resources which usually includes: equipment, managerial systems, operation manual, initial trainings, site approval and all the support necessary for the franchisee to run its business in the same way it is done by the franchisor.

1.1.7 Turnkey project

A turnkey project refers to a project where clients pay contractors to design and construct new facilities and train personnel. Such entry shows that a company has no long-term interest in the foreign country.

1.2 Factors determining entry modes

Entry mode choice refers to the preference of a MNE for how to enter foreign markets. A company makes this choice by considering various factors like:

1.2.1 Country specific factors

Economic conditions in the host country like per capita income affect the economic objectives of the foreign investor. Laws and policies like FDI policy, property rights system and other legal framework may directly or indirectly influence the entry mode selection. Country's institutional environment includes formal and informal institutions. Informal institutional factors include cultural distance, language diversity, etc between home and host countries. Formal institutional factors are market supporting institutions in the host country like infrastructure conditions which affect the extent to which a MNE plans to commit distinctive resources to local operations which in turn influence the entry mode option.

1.2.2 Industry or market specific factors

Different market specific factors affecting entry mode selection are: entry barriers into a target industry into the host country, industrial uncertainty and complexity, market potential, level of consolidation within an industry sector and value chain consolidation which influences the value chain linkages needed for MNEs local operations.

1.2.3 Firm specific factors

Firm specific resources include proprietary technology, firm's culture, tacit know-how, specialized assets and reputation, superior product, processes or technology. Firm's strategic goals for international expansion are also one of the foremost determinants underlying entry mode selection. Other firm specific factors which determine the entry mode choice are: international or business experience, size of the subsidiary, diversity of operations, nature of the product etc.

2. Objective

The objective of the study is to review the literature related to the factors affecting the choice of entry mode in international business. We would also look at the impact of different factors on entry mode selection in different kinds of sectors like construction sector, services sector, hotel industry, manufacturing sector.

3. Literature Review

This section is primarily divided into three sub-sections: 3.1 Studies on firm specific factors affecting entry modes, 3.2 Studies on country specific factors affecting entry modes and 3.3 Studies on hybrid or mixed factors affecting entry modes. Section 3.2 and 3.3 is further categorized into studies focusing only on equity modes of entry.

3.1 Studies on firm specific factors affecting entry modes

Claver *et al*. (2009) (5) examined the impact of family-related factors on the international commitment level of Spanish family firms.

The data was collected for Spanish family firms through mail survey. A company was classified as a family firm if most of its ownership and management lies in the hands of a family. Ordered logistic regression model was used to draw the results. The dependent variable, international commitment, was measured as: exports, contractual agreements, joint ventures and wholly owned subsidiaries. Independent variables were: risk aversion, generation in-charge of the firm, long term vision, family members in other countries, presence of non-family members and self-financing.

Findings showed three things, firstly, long-term vision is a key element for international expansion using greater commitment modes; secondly, presence of external family managers in the firm favours entry modes involving stronger international commitment because they are likely to provide experience and knowledge that may become a valuable resource in the progress of internationalization process; and finally, the negative association of importance of family funds in the financing of business growth with entry modes that require a higher commitment level.

Ekeledo and Sivakumar (2004) (8) conducted a study to test a resource-based framework for entry mode choice and ascertain the extent to which the determinants of foreign market entry mode choice in the manufacturing sector apply to non-separable (soft) service sector.

Data was collected using mail survey from US firms. Two statistical analysis tools were used Binary logistic regression and Contingency table analysis. The dependent variable, degree of control, was dichotomous– full control mode (sole ownership and wholly owned subsidiary) versus shared control mode (joint venture, licensing, franchising or management contract). The independent variables were proprietary technology, tacit know-how, international business experience, specialized assets, firm size (relative), organizational culture, company reputation, paired application, and nature of the product (manufactured goods versus services).

Findings of the study suggested that full control mode provides the best protection for firms having sustainable competitive advantages; like a firm with proprietary technology or specialized asset or a firm that possesses substantial industry and geographic experience. A large firm favours sole ownership mode whereas a small manufacturing firm favours exporting. Sole ownership also allows a firm to exploit its valuable culture without the fear that a foreign partner might clone this competitive advantage. However, size of a firm and valuable culture were not found to be good predictors of sole ownership mode in the presence of other independent variables. A firm with a good reputation for superior product, process, or management technology uses a full-control mode because alliances are risky in this case. But a firm that needs a complementary resource in a target foreign market to be able to exploit its asset would use a shared-control mode. Tacit know-how does not have a significant impact on the choice. The results also showed that the unique characteristics of services affect the entry mode choice. Because of the simultaneity of consumption and production, non-separable service firms locate production facilities in the target foreign market therefore, a greater percentage of such firms favour sole ownership compared to manufacturing firms. To reduce the cost of operating in multiple sites and to maintain a good reputation, a larger percentage of such firms enter by simultaneously adopting multiple modes of entry like sole ownership or joint venture and franchising. Also, a larger percentage of small non-separable service firms favour sole ownership. Geographical experience has no different impact on entry mode choice of service firms.

Meyer *et al.* (2009) (12) built a framework grounded in the resource-based view to analyze foreign entry strategies based on strategic considerations of exploitation and augmentation of knowledge and other resources.

Their model explicitly addressed the needs of knowledge-intensive (K-I) firms. Entry modes were classified into low, medium and high resource augmenting modes, based on their merits for enhancing resources. Low resource-augmenting modes include exports, cross-border provision of services, contracts, franchising and licensing. Medium resource-augmenting modes include partial acquisitions, minority or majority JVs, and establishment of branch offices run by expatriates and local experts. High resource-augmenting modes include majority or full acquisitions. Determinants of entry modes were geographically fungible resources, location-bound resources and experience as a resource.

The study advanced some testable propositions like, firms with geographically fungible resources would focus on exploiting their own resources, benefiting more from low resource-augmenting entry modes like MNEs whose operations are more Research and Development (R&D) intensive in its country of origin or which sell in specialized business-to-business markets or which sell to organizations that source internationally. Firms rich in location-bound resources need to acquire local complements, and thus find it worthwhile to enter through resource-augmenting modes like MNEs which compete with capabilities adapted to the specific context or firms which are diversified across industries in their home market or which rely on brand name or reputation in each local market. But local experience reduces such a need to access local knowledge through local partners. Therefore the more the firms have experience in the local context; the weaker are the effects motivating resource-augmenting entry modes due to location-bound resources.

Agarwal and Gupta (2012) (1) used resource based theory to study the association of market entry strategy with firm specific resources.

The data was collected for Indian firms in the manufactured goods and separable services sectors entering Gulf Cooperation Council countries (GCCC) market. The Sultanate of Oman market was selected as a sample and data was collected using a questionnaire. The primary data was put to hypothesis testing process by applying the T test at 30 degrees of freedom at 95% confidence level. Compare Means was used to specify a range of dependent variables and sub variables. The dependent variable was market entry strategy based on the level of equity ownership and overall control: exporting, management service contract, joint venture and wholly owned subsidiary. The independent variable, firm specific factors included: firm size; international business experience, proprietary technology, organizational culture; and superior product, process or management technology.

The analysis revealed positive association between rising levels of equity and control and firm specific resources. However they were considered significant only for the adoption of equity based market entry strategies like joint ventures (JV) and wholly owned subsidiaries (WOS). There were no significant firm specific resources for the adoption of non equity modes. The following factors were found to be significant for the choice of WOS: average turnover of the firm; international experience; brand name recognition in host country; firm encourages experimentation and tolerates mistakes; firm favours promotion from within; protecting reputation for superior management and superior quality. The following factors were found to be significant for the choice of JV: the average turnover of the firm; the international business experience; the Trademark of the firm; the brand name recognition in host country; firm encourages experimentation and tolerates mistakes; firm favours promotion from within; protecting reputation for superior management and protecting reputation for superior quality.

3.2 Studies on country specific factors affecting entry modes

Chen (2008) (4) conducted a study to test the impact of specific host country related factors upon the selection between permanent entry mode and mobile entry mode in international construction market.

The data was primarily collected from Engineering News Record (ENR) reports. 42 country markets were selected to examine 122 international contractors' entry into them. A Binary logistic regression analysis was performed to test the hypotheses. The dependent variable, entry mode, was differentiated between permanent and mobile entry mode based on the functional aspects of entry modes, rather than the legal aspects. Independent variables (host country factors) included trade link, cultural distance, colonial link (similarities in political or legal institutions), language proximity, host market attractiveness, investment risk, entry restriction and competitive intensity.

The results showed that findings primarily from the manufacturing sector do not apply to the construction sector and the culture of international contractors must be taken into consideration to explain and predict their market entry mode selection. Contractors do not tend to determine entry mode based on trade link, investment risk and host market attractiveness. However, permanent entry mode was found moderately superior to mobile entry modes in exploiting an attractive market. When contractors enter an unfamiliar, risky, different and competitive market, they are more likely to use permanent entry modes. It was unexpectedly found that contractors, when entering a market with intense competition, tend to use permanent entry mode instead of mobile entry mode. The results of statistical analysis showed that international contractors appear to be adventurous risk-takers and aggressive competitors. They traditionally prefer mobile entry modes, but will use permanent entry modes to gain local knowledge, command new capabilities and establish local networks to surmount the challenges in overseas markets that are quite different from their home countries. However, they are more likely to use mobile entry modes when the host market involves strong restrictive laws, policies and practices.

Baena (2009) (2) conducted a study to assess the relationship between a set of independent variables and the foreign entry mode chosen by franchisor companies.

The data was obtained from the Spanish Franchising Association for 768 outlets established by 34 Spanish franchisor companies in 26 emerging nations. The hypotheses were tested by computing OLS Regression analysis. Four dependent variables were developed to assess the entry modes franchisors can adopt: direct franchising, master franchising, joint venture, and direct investments. Independent variables were: geographical distance, the level of uncertainty avoidance, per capita income, unemployment rate, and the political stability of the host country.

The results showed that direct franchising may not be suitable for firms engaged in geographically distant markets because as physical distance increases; so too will transaction costs, especially those related to researching and selecting franchisees or transferring technology and raw materials from franchisers to franchised units. Direct franchising may be appropriate for entering emerging markets with significant political instability, medium-low per capita income and substantial levels in unemployment rates and efficiency of contract enforcement. The choice of master franchising is characterized by markets with medium and medium-high per capita income, high unemployment rates, and efficiency in contract enforcement. Franchisors doing business in politically stable emerging markets may be willing to adopt joint venture instead of looking for a local agent who deals with the entire business risk. However, if the host market is both politically stable and the contract enforcement is also efficient, the likelihood of conducting a direct investment will increase, and neither the business risks nor the benefits will be shared with a local agent. Uncertainty avoidance was not found to be significant implying that local agents do not always view franchising as a method that minimizes business risks. However, there was some positive relationship between uncertainty avoidance and the likelihood of adopting direct franchising or master franchising which means that at a certain level, these modes of entry are perceived to reduce business risk. Results also illustrated the negligible effect of geographical distance on the choice of entering emerging markets via master franchising, joint venture, or direct investment.

3.2.1 Studies on country specific factors affecting equity modes of entry

Duarte and Suarez (2010) (10) have analyzed the effect of external uncertainty coming from the host country's environment i.e. political risk and cultural distance on the entry mode choice and the influence of language diversity on the interaction effect of these two factors.

The database included the FDIs made in the period of 1989 to 2003 by Spanish companies listed on Madrid Stock Exchange. The sample comprised of 334 FDIs in 34 different host countries by 63 different firms. This sample was then split into two different subsamples depending on the language spoken in the host country i.e. Spanish speaking and non-Spanish speaking. The Binomial regression model was used. The dependent variable, mode of entry, was a dichotomous one, represented as joint ventures (JVs) and wholly owned subsidiaries (WOSs). The independent variables were Cultural distance (CD), Political risk (PR) and Language diversity.

The findings showed that the external uncertainty coming from the formal and informal environment i.e. PR & CD positively influences the likelihood of choosing WOSs as entry mode. Results also showed the existence of an interaction effect between the two uncertainty dimensions: when the environment is characterized by both high PR & CD, foreign firms prefer to invest through JVs over WOSs; however, such a preference for JVs takes place only when language barriers between partners (derived, in turn, from language diversity) do not exist. In this context, JVs provide higher flexibility, lower resource commitment and allow sharing risk with a partner who enjoys familiarity with the host country's formal and informal environment. When language barriers exist, effective communication between both partners is impeded and sharing the venture with a local partner is not an effective way to reduce external uncertainty. Results however, did not provided conclusive empirical evidence relative to a preference for WOSs when environment is characterized by both sources of external uncertainty and language barriers exist.

Chang *et al.* (2012) (3) conducted a study to explain whether MNEs prefer joint venture or wholly owned subsidiary when entering a culturally distant host country by examining the contingent effect of the host country's governance quality.

The dataset comprised of 2451 entries by Taiwanese MNEs into 13 countries. Binary logistic regression model was used to draw the results. Dependent variable was entry mode: JVs and WOSs. Independent variables were: cultural distance and Governance quality.

The findings showed that informal institutional hazards (caused by high cultural distance) are mitigated by formal institutional hazards (caused by poor governance quality). When cultural distance is high and governance quality is poor in a host country, foreign MNEs are less inclined to collaborate with local partners, and thus prefer to choose WOS, the entry mode with full control. In the contrary, if a country's governance quality is satisfactory, even if cultural distance is high, the local partners' opportunistic behaviour will be restricted and thus foreign MNEs prefer to work with local partners to enjoy various benefits of collaboration. The study outlined the importance of a sound governance infrastructure with the notion that cultural distance is significant only when governance quality is poor.

3.3 Studies on hybrid or mixed factors affecting entry modes

Barber *et al.* (2010) (14) proposed a two-step model for choice of entry mode in the service sector that distinguishes between decisions regarding extent of commitment (equity and non-equity) and decisions regarding extent of control (shared and full control).

The dataset consisted of a sample of 328 foreign market entries from 170 firms. Probit or Logit estimation was used with the Heckman selection bias correction procedure. Two step dependent variables were introduced. At the first level, equity modes (joint ventures, acquisitions and greenfield) and non-equity modes (exports and cooperation agreements). At the second level, full-control modes (Greenfield and total acquisitions) and shared control mode (joint ventures). Independent variables were: Environmental uncertainties (market potential, cultural distance and host country risk), Behavioural uncertainties (marketing intensity and Tacit knowhow) and, Characteristics of services (capital intensity and degree of customization).

The findings confirmed the entire hypothesis. The interaction between market potential and capital intensity showed that, for high capital-intensive services, a higher level of potential growth is associated with higher equity ownership preference. However, for low capital-intensive service firms, market growth potential has little effect on entry mode choice. Capital intensive service firms prefer to limit the risks to which they are exposed by reducing their resource commitment in countries that are culturally distant from the country of origin. They also prefer to adopt more flexible and less risky methods of expansion in environments where there are high levels of political and economic instability i.e. high country risk. But, knowledge-intensive service firms prefer to use greater commitment entry modes when faced with the conditions of country risk and cultural uncertainty. The results also suggested that the relationship between the higher level of marketing intensity or tacitness of knowhow and the preference for full-control modes is more positive for high customized services.

Barber *et al.* (2011) (13) analyzed the relationship between the entry modes used by Spanish hotel firms and their main determinants.

The data was analyzed for a period of 1985 to 2009 for 1,218 entry operations carried out by 51 international Spanish hotel chains. Pearson correlation coefficient, Chi-square test and Standardized residuals were used to get the result. The entry mode variable included franchise contracts, management contracts, shared ownership (joint ventures) and full control modes (Greenfield and total acquisitions). Influencing factors were: host country determinants (market potential, country risk and cultural distance) and; firm determinants (intangibility and complexity of international assets, firm size and international experience).

The results suggested that the determinant factors of entry mode choice in manufacturing firms cannot be directly transferred to the internationalization of soft-services firms. In the hotel industry, there is a clear tendency for using non-equity modes (franchising and licenses) when the potential of the market is high. Moreover, as cultural distance increases, there is a danger that the transfer of knowledge to local partners may be imperfect and therefore high control entry modes are preferred. This tight control increases with the increase of the complexity and intangibility of the services being offered by the foreign hotel. The three-star and four-star hotels show a greater tendency to use management agreements as entry mode, while five stars hotels make a more intensive use of full ownership. Therefore, the greater the intangibility of the assets, hotel chains will prefer the use of full control modes. Contrary to the case of manufacturing firms, larger and more experienced hotel chains have a greater capacity to generate the necessary conditions and know-how that allow them to opt for management contracts or to franchise their brand names.

Schwens *et al.* (2011) (15) conducted a study to examine the moderating impact of institutional context of the host country on the relationship between some direct variables and entry mode choice amongst Small and Medium Enterprises (SMEs).

The data was collected for a sample of 227 German SMEs via standardized postal survey. SMEs were defined as firms with up to 500 employees. To test the hypotheses, Binary logistic regression

Vol. 2, Issue: 5, June: 2014
ISSN:(P) 2347-5404 ISSN:(O)2320 771X

analysis was used. The dependent variable, entry mode was a dichotomous one: equity modes (joint ventures and wholly owned subsidiaries) and non-equity modes (contractual agreements and exports). The first moderator variable, informal institutional distance was related to differences between home and host country in terms of culture and ideology. The second moderator variable, formal institutional risk in the host country was measured by Hermes Country Risk Rating. Direct variables were international experience, proprietary know-how, and strategic importance.

The findings showed that the relationship between well-established direct effects and entry mode choice is contingent on the institutional context. The results suggested that at high levels of formal institutional risk, international experience has a stronger influence on choosing equity based entry modes, whereas when formal institutional risk is low, the effect becomes significantly weaker. Furthermore, informal institutional distance and formal institutional risk positively moderate the relationship between proprietary know-how and entry mode choice. SMEs with proprietary know-how tend to internalize transactions in order to secure knowledge from expropriation when formal institutional risk is high or when they perceive high risk of opportunistic behaviour by foreign market players from different cultural backgrounds. Finally, when SMEs assign high strategic importance to a foreign market entry, high formal institutional risk may change the preferred entry mode from equity based to non-equity based modes. However, at low and medium levels of formal institutional risk, the relationship between strategic importance and equity based entry modes is positive.

3.3.1 Studies on hybrid or mixed factors affecting equity modes of entry

Meyer *et al.* (2009) (11) examined how institutional development (or underdevelopment) in emerging economies affects entry strategies, and how investors' needs for local resources impact this relationship.

The data was collected from four emerging economies, India, Vietnam, South Africa, and Egypt by combining questionnaire data with archival data. MNE subsidiaries were selected using stratified random sampling. A Multinomial Logit (M-Logit) regression model was used to draw the results. The dependent variable, mode of entry included Greenfield, acquisition, and joint venture. The explanatory variables were: Institutions (based on business freedom, trade freedom, property rights, investment freedom, and financial freedom) and Resource needs (tangible and intangible resources).

The results were largely consistent with the hypotheses. The findings concluded the level of development of market supporting institutions lowers the cost of doing business and declines the need for a partner and thus encourages entry by Greenfield or acquisition. The need for local tangible resources will not influence this choice. However, the greater the need of foreign entrants for intangible resources, the more likely they are to use acquisition or joint venture. Thus, more efficient markets facilitate acquisition entry. However, where institutions are weak, firms may rely to a large extent on joint ventures as entry mode.

Demirbag *et al.* (2009) (7) conducted a study to examine the impact of institutional, transaction specific and firm level variables on Turkish MNEs' choice of equity ownership mode in developed and emerging economies

The data was collected from 1990 to 2006 for a sample of 522 foreign affiliates of Turkish MNEs. The overall sample was split into two sub-samples: developed host countries and emerging host countries. The hypotheses were tested using Binomial logistic regressions. The equity structure of firm (minority JVs, equal JVs, majority JVs and WOSs) was treated as the dependent variable. Independent variables were: Institutional and transaction specific influences (political constraints, cultural distance, linguistic distance, knowledge infrastructure) and Firm specific influences (carent firm diversity, capital size of subsidiary).

The results revealed that in an environment with high political constraints or greater linguistic distance or when diversifying into areas outside the main line of business, emerging country MNEs choose a JV. WOSs will be preferred in host country markets characterized by a high level of knowledge infrastructure. This choice is particularly emphasized in emerging host country markets. The results also showed that Turkish investors are more likely to choose a WOS over a JV as the capital size of the affiliate increases. No support was found for the impact of cultural distance. Apart from political constraints, no significant variation was noted between the two sub-samples of host country markets with regard to the determinants of equity choice. In developed host country markets with fewer political constraints Turkish investors would be more willing to choose WOSs over JVs, whereas they would be more in favour of adopting JVs in emerging host country markets characterized by fewer political constraints.

Estrin *et al.* (2009) (9) explored the complementary roles of institutional and human resource distances on entry mode choice of first time and experienced foreign investors.

The dataset was based on questionnaire surveys of foreign investors from 55 home countries who invest in six emerging economies, Egypt, Hungary, India, Poland, South Africa and Vietnam. The sample was split in subsamples of first-time investors and experienced firms. The econometric analysis was performed using a Logit model in which the dependent variable was mode of entry (Greenfield investment and cooperative modes, the latter encompassing partial and full acquisitions as well as joint ventures). Three aspects of distance were considered – Formal institutional distance, informal institutional distance and human resource distance (educational achievements and exposure to new technologies).

The results showed clear support for a positive effect of both formal institutional distance and human resource distance on investors' preference for Greenfield investment rather than a cooperative mode. Complex contracts, such as joint ventures, may be more difficult to design if the partners operate under different legal systems. Also, the larger are the human resource differences, the larger the integration and coordination challenges of cooperative entry modes. The effect of informal institutional distance on Greenfield entry is curvilinear in the aggregate sample, while there remained uncertainty regarding the relationships in specific sub-samples. Thus, in aggregate sample, over most of the relevant range of this distance, the effect is positive because as cultural distance increases, the cost of communication and collaboration increases, but for very high distance, interaction with the local environment becomes important, increasing the need to create links with local peers and thus the direction of the effect is reversed. Experienced investors choose their mode differently compared to first time investors. Informal institutional distance matters less for them thus it will have a positive effect on the probability of Greenfield entry. Experienced investors are also in a better position than inexperienced ones to spot suitable local partners with valuable human resources so, as the human resource distance increases; they are more likely to choose a cooperative mode than a Greenfield investment.

Couturier and Sola (2010) (6) examined the main market drivers affecting the choice of entry strategies and proposed a framework for market entry strategy.

The paper was based upon interviews and a single case. The method involved a two-pronged approach, firstly using qualitative interviews with 27 senior executives from 4 different industry sectors and 6 countries to identify key market factors influencing the entry mode choice and develop an initial market entry framework and second, testing the framework using an in-depth case study developed by working with a major German Food company entering the British, Italian and Polish markets. Content analysis was used to analyze the data resulting from interviews. There were three postulated market entry strategy options: Greenfield investment, Strategic partnerships and Acquisitions.

The findings supported the contention that market entry variables should be key determinants in the choice of market entry mode. The authors proposed a three-step market entry framework: firstly establish the feasible options from an internal company perspective, such as resource availability, desired control or attitude to risk; then define the strategic guidelines, such as time-to-market, strategic fit, level of control; and finally evaluate the impact of the market-based factors. The study identified five market factors to consider when selecting the best entry mode: market growth, market consolidation, value chain fragmentation, product fit and the political, legal and economic environment. The ultimate choice of market entry mode depends upon the evaluation of these criteria in the light of the company's strategic guidelines. Specifically, in a fast-growing and more fragmented market, Greenfield investment could be the preferred strategy as it results in grabbing a sizeable share of a fast-growing market, especially when the industry value chain is not yet efficient and players still have unstable positions. On the other hand, in a mature and fairly consolidated market (the UK in the case study), market entry must be fast and should aim at catching up with established players. To do so, an acquisition should be seen as the most appropriate option, especially when the power across the value chain is consolidated. When product fit with the target market is higher, Greenfield investments would be best. However, strategic partnerships are the preferred one when product fit is limited or host country is characterized by an unstable political, legal or economic environment (Poland in the case study).

4. Conclusion

International entry mode selection is a crucial decision. Inappropriate selection could lead to even exit for the firm from the foreign market. So, various factors related to firm, market, industry and country need to be considered when choosing a particular mode of entry.

- Strong competitive advantages of a firm like proprietary technology, specialized asset, valuable culture, superior product, process, or management technology and international experience would best be protected through full control modes like Greenfield investment, sole ownership, and full acquisition.
- Regarding macro or country specific factors, the effect of formal and informal institutional environment is important. If both formal and informal risks are high, WOSs are preferred. But, the need of foreign entrant for intangible resources can change this preference to acquisition or joint venture. Joint ventures will also be preferred if governance quality (informal environment) is satisfactory, even when cultural distance is high or if no language barriers exist even when both the institutional risks are high. However, the impact of cultural distance alone on entry mode choice is uncertain. The effect of institutional distance on first time and experienced firms can be concluded on the basis of study by Estrin *et al* (2009): formal institutional distance affects first time and experienced firms in same way i.e. prefer Greenfield; informal institutional distance has a curvilinear effect for greenfield entry on first time entrants (initially positive and then negative) and no effect on experienced firms; and human resource distance's impact is to favour Greenfield for new firms and acquisition or JV for experienced firms. Political constraint affects the equity ownership choice between emerging and developed host country markets differently (Demirbag *et al* (2009)). With fewer political constraints WOSs are preferred in developed host country markets, whereas JVs are adopted in emerging host country markets.
- Type of firm entering a foreign market affects the entry mode decision. For SMEs, even when formal institutional risk is high, if they are internationally experienced they prefer equity based entries. SMEs with high proprietary know-how also opt for equity based entry modes even in situations of large formal and informal institutional risk. But, if they assign high strategic importance to a foreign market entry, they prefer non-equity modes in environment of high formal institutional risk. In family firms, long-term vision and the presence of nonfamily managers are positively related to stronger commitment entry modes like joint ventures and wholly owned subsidiaries, although self-financing limits this commitment and thereby favours exports or contractual agreements. Franchising firms use direct franchising for entering emerging

markets with political instability, medium-low per capita income, and high unemployment rates. Master franchising is used in emerging markets with medium and medium-high per capita income and high unemployment rates. Franchising using joint venture or direct investment is adopted for politically stable emerging markets.

- Nature of the product also affects the entry mode choice. Non separable service firms favour entry by sole ownership mode as well as entry by multiple modes simultaneously. More capital-intensive service firms prefer to use greater commitment entry modes when faced with a higher level of potential growth or low levels of country risk and cultural uncertainty. The positive relationship between higher level of marketing intensity or tacitness of knowhow and the preference for full-control modes is more positive for high customized services. For soft services, specifically hotel firms, there is a clear tendency for using non-equity modes by large and experienced firms or when the market potential is high. But they may prefer to enter culturally distant markets through full control modes like Greenfield or acquisition, especially five star hotels. In construction sector also, we cannot directly apply the manufacturing sector concepts. International contractors are adventurous risk-takers and aggressive competitors. They are more likely to use permanent entry when cultural distance or competitive intensity is significant or colonial link, language proximity or entry restriction is insignificant.
- Most of the studies which have been undertaken for the review have focused mainly on equity modes of investment and there is relatively less literature which focuses on determinants of non equity modes of entry. Regarding firm specific resources, Agarwal and Gupta (2012) even concluded that such resources are significant only for the adoption of equity modes.

References

1. Agarwal, R., & Gupta, B. (2012). Impact of firm specific resources on market entry strategic choice. Asia Pacific Journal of Research in Business Management, 3(2), 1-12.
2. Baena, V. (2009). Modeling global franchising in emerging markets: An entry mode analysis. Journal of East-West Business, 15(3-4), 164-188. doi: 10.1080/10669860903435921
3. Chang, Y. C., Kao, M. S., Kuo, A., & Chiu, C. F. (2012). How cultural distance influences entry mode choice: The contingent role of host country's governance quality. Journal of Business Research, 65(8), 1160-1170. doi:10.1016/j.jbusres.2011.07.033
4. Chen, C. (2008). Entry mode selection for international construction markets: The influence of host country related factors. Construction Management and Economics, 26(3), 303-314. doi: 10.1080/01446190701882382
5. Claver, E., Rienda, L., & Quer, D. (2009). Family firms' international commitment: The influence of family-related factors. Family Business Review, 22(2), 125-135. doi: 10.1177/0894486508330054
6. Couturier, J., & Sola, D. (2010). International market entry decisions: the role of local market factors. Journal of General Management, 35(4), 45-63.
7. Demirbag, M., Tatoglu, E., & Glaister, K. W. (2009). Equity-based entry modes of emerging country multinationals: Lessons from Turkey. Journal of World Business, 44(4), 445-462. doi:10.1016/j.jwb.2008.11.009
8. Ekeledo, I., & Sivakumar, K. (2004). International market entry mode strategies of manufacturing firms and service firms: A resource-based perspective. International Marketing Review, 21(1), 68-101. doi: 10.1108/02651330410522943
9. Estrin, S., Baghdasaryan, D., & Meyer, K. E. (2009). The impact of institutional and human resource distance on international entry strategies. Journal of Management Studies, 46(7), 1171-1196. doi: 10.1111/j.1467-6486.2009.00838.x
10. López-Duarte, C., & Vidal-Suárez, M. M. (2010). External uncertainty and entry mode choice: Cultural distance, political risk and language diversity. International Business Review, 19(6), 575-588. doi:10.1016/j.ibusrev.2010.03.007

11. Meyer, K. E., Wright, M., & Pruthi, S. (2009). Managing knowledge in foreign entry strategies: A resource-based analysis. Strategic Management Journal, 30(5), 557-574. doi: 10.1002/smj.756
12. Meyer, K. E., Estrin, S., Bhaumik, S. K., & Peng, M. W. (2009). Institutions, resources, and entry strategies in emerging economies. Strategic management journal, 30(1), 61-80. doi: 10.1002/smj.720
13. Pla-Barber, J., León-Darder, F., & Villar, C. (2011). The internationalization of soft-services: entry modes and main determinants in the Spanish hotel industry. Service Business, 5(2), 139-154. doi: 10.1007/s11628-011-0106-x
14. Pla-Barber, J., Sanchez-Peinado, E., & Madhok, A. (2010). Investment and control decisions in foreign markets: Evidence from service industries. British Journal of Management, 21(3), 736-753. doi : 10.1111/j.1467-8551.2010.00698.x
15. Schwens, C., Eiche, J., & Kabst, R. (2011). The moderating impact of informal institutional distance and formal institutional risk on SME entry mode choice. Journal of Management Studies, 48(2), 330-351. doi: 10.1111/j.1467-6486.2010.00970.x