Entry mode

'attain advantage of entry mode choice'

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Abstract

Organizational factors and environmental circumstances are central themes for firms in order to attain advantage of entry mode choice. This study explores factors and circumstances and their relatedness with firm's entry mode choice. The three most researched entry modes are used in this thesis: wholly owned investment, joint venture and contractual agreement. Advantages of entry modes are dependable of situational and organizational characteristics (e.g. high growth market and resources) to know which entry mode is most appropriate. Organizational factors are firm specific resources of organizations (Johnson et al., 2006). Summarizing the resources, higher resources lead to higher control entry modes. More knowledge and motivation results into more control entry modes. Higher reputation results to greater opportunities for full control entry modes (Brouthers, 2002). Information of customers and markets leads also to higher control entry modes. To summarize environmental circumstances they are divided in economic situation and cultural distance. For the most part, the higher economic situational factors the lower the preference to control. Cultural distance has both, positive association with wholly owned investment and contractual agreements.

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CHAPTER 1 Introduction

Section 1.1 Problem indication

In Europe most sales are through small, independent retailers, in contradiction with the American market (Madhok, 1997). For example, the American firm Proctor and Gamble must adapts its marketing, promotion- and distribution-strategy of household products when they enter the South European market. They must adapt their strategy for surviving in other markets (Grant, 2008). As seen, even in big organizations such as Proctor and Gamble it is difficult to implement a strategy in other countries. When organization opts the right entry mode the problem can be solved. Entry modes are essentially institutional arrangements that facilitate the firm’s bringing its products and services to other markets (Pehrson, 2006). Serving other markets with products and services should lead to advantage of organization’s entry (Levitt, 1983). Levitt (1983) states that entry modes rests on two advantages: the knowledge of firms which products are wanted by customers (e.g. Nike shoes and McDonalds food) and scale economics. Scale economics are the advantages that can be achieved by entering foreign markets.

How firms enter foreign markets has been a topic of strong interest to researchers in international business and marketing (e.g. Agarwal and Ramaswami, 1992; Mutinelli and Piscitello, 1998; Cui and Jiang, 2009). Entry modes represent the third most researched field in international management, behind foreign direct investment and internationalization (Werner, 2002). To trace out all entry modes, this thesis choose for the three most researched entry modes. Most researched and well known entry modes are: joint ventures, wholly owned investments and contractual modes, such as licensing (Sharma and Erramilli, 2004). Research to entry modes is mostly focused on the different entry modes (e.g. Pan and Tse, 2000) or factors that influence entry mode decisions (Chen and Hu, 2002).

In addition, existing studies have described how some influenced- and non- influence factors could affect its entry mode choice. These factors include the firm size, and the level of host country competition a firm works with (Tse, Pan and Au, 1997). Hill, Hwang and Kim (1990) defined the factors which influence entry mode choice as organizational and environmental variables. After research is noted that the theory of entry modes and their related variables is not consistent and focused mostly on specific factors. They do not have a single line which factors are relevant to attain entry mode advantages. This thesis focuses on the relation between entry mode choices and achieving the benefits of the choice. In other words, on which organizational and environmental factors is an organizations entry mode choice based in order to attain entry mode advantage? In section 1.3 and 1.4 the problem statement and research questions are described. The research design and data collection shows section 1.5. Section 1.6 gives an overview of the rest of the chapters.

Section 1.2 Problem statement

On which organizational and environmental factors is an organizations entry mode choice based in order to attain entry mode advantages?

Section 1.3 Research questions

In order to answer the problem statement properly, this thesis will answer the following research questions:

- Which entry modes exist and what are their advantages?
- Which organizational factors influence the decision to enter foreign markets?
- Which environmental circumstances influence the decision to enter foreign markets?

Section 1.4 Research design and data collection

According to Sekaran (2003) a literature review is the documentation of a comprehensive review of the published and unpublished work from secondary sources of data in the areas of specific interest to the researcher. The literature review must help to find an answer to the main question. This study is a qualitative and descriptive literature research. Descriptive means that the thesis is written through summarizing papers and gives it a final conclusion. Papers of scientific authors should help to find an answer for the main question. Research has been done in different databases; Science direct, Jstor, Lexus Nexus, Springerlink, Elsevier and Web of Science. These databases are known as qualitative databases with a great offer of papers. Web of Science uses the 'impact factor' of journals. This database is used to control the impact factor of articles. Web of Science defines the Impact Factor as: "The Journal Impact Factor is the average number of times articles from the journal published in the past two years have been cited". A high impact factor is a strong indication that the journal used is of high quality**.** The impact factor of the used papers varies from 3,598 (Journal of Marketing) to 0,943 (Journal of Business Research)**.** The data will be gathered from different scientific articles and books. Using the usual databases of Tilburg university helps to find the literature. The following key words were used to find relevant articles: 'abroad', 'entry mode', 'determinants entry mode', 'entry mode choice' and 'entry mode decision'. By reading the articles' reference list more articles have been found.

Section 1.5 Overview of the rest of the chapters

The structure is a guideline for the thesis. As described in the research questions there are three sub questions. Three sub questions are divided in separate chapters. Chapter 2 is about the entry modes and their advantages. Chapter 3 focuses on the organizational factors which influence the decision to enter a foreign market. Environmental circumstances which influence entry mode choice are discussed in chapter 4. The conclusions and recommendations for further research are given in chapter 5. The last chapter includes a point of view on the main question. The recommended points and constraints were also drawn in chapter 5. Finally the references are placed.

CHAPTER 2 Entry modes and their advantages

This chapter explains the theoretical background of entry modes and their advantages. In the first section, entry mode is defined. Section 2.1 gives further details about the most researched entry modes and their advantages. Section 2.2 describes the wholly owned investment entry mode. In section 2.3 joint ventures are discussed. Section 2.4 explains the contractual entry modes. In the last section, section 2.5, the conclusion of this chapter will be given. The general question that will be answered in this chapter: Which entry modes exist and what are their advantages?

Section 2.1 Entry mode

"When a firm first enters an overseas market, a low resource commitment mode such as export is desirable. As the firm acquires more knowledge and experience in that overseas market, it will assume a higher level of resource commitment with higher levels of risk, control and profit return" (Pan and Tse, 2000, pp. 536). This chapter prescribes the level of involvement of three entry modes: wholly owned investment, joint venture and contractual agreement.

A firm enters an overseas market because it is convinced of the advantages of that market (Grant, 2008). With 'overseas' is meant 'over the original borders' in this context. Levitt (1983) states that foreign market entries rest on two advantages: the knowledge of firms which products are wanted by customer and scale economics. Scale economics are the advantages that can be achieved by entering foreign markets (e.g. efficiencies and replication). As Grant (2008) suggests, with a foreign market entry an organization has five advantages: cost benefits, exploiting national resources, serving global customers, learning benefits and competing strategically. Cost benefits raised up through efficiencies in production and replication. Next to that, organizations have options to exploit national resources in foreign markets. Serving global customers and learning benefits are important benefits when an organization enters another market. Through serving customers and learning from situations in other markets, organizations can interpreter customer preferences and possible adapt their strategy to survive. Finally competing strategically gives more opportunities to attack competitors and establish and increase their market share in other markets (Grant, 2008).

In exploiting an overseas market opportunity, a firm has a range of options with regard to mode of entry. The basic distinction is between market entry by means of transactions and market entry by means of foreign direct investment (Madhok, 1998). Sharma and Erramilli (2004, pp. 3) define an entry mode as: "a structural agreement that allows a firm its product market strategy in a host country either by carrying out only the marketing operations, or both production and marketing operations there by itself or in partnership with others". Kogut and Zander (1993) concluded it depends on the knowledge in the firm what their entry mode should be; wholly owned, joint venture or licensing. Wholly owned and joint venture are widely discussed foreign direct investments (e.g. Buckley and Casson, 1998; Cui and Jiang, 2009). As Cui and Jiang (2009, pp. 435) states: "the choice between joint ventures and wholly owned investment is one of the most important and challenging decisions for any firm seeking to enter foreign markets". Kogut and Zander (1993) give the addition to these two FDI strategies: the transaction market entry of licensing. The transaction market entry of licensing is increased by exporting. Those two terms are defined in one term, contractual agreements (Tse, Pan and Au, 1997).

Firms have adopted a number of different modes to enter foreign markets. The different modes of entry have been classified into exporting, contractual agreements, joint ventures and wholly owned investments (Kumar and Subramanian, 1997). The most researched entry modes are wholly owned foreign investments , joint ventures and contractual agreements (Canabal and White, 2008). Exporting is strongly elated to contractual agreements because it is based on long term contracts (Grant, 2008). As Kumar and Subramanian (1997) state, exporting is only involved with the physical transfer of goods from the firm to the foreign market, with or without an agent in exchange for the value of the goods in monetary terms. Contractual agreements are binding contracts between the firm and an agent to produce and distribute the goods in the foreign market in return for some form of economic benefits (Pan and Tse, 2000). "A joint venture is the pooling of assets and knowledge by two or more firms who share joint ownership and control over the results of the pooling" (Kumar and Subramanian, 1997, pp. 54). Wholly owned investment means that an organization owns more than 95% of the shares (Mutinelli and Piscitello, 1998). Pehrsson (2006) summarized all entry modes in two types: full control entry modes and shared control entry modes. Returning to Canabal and White (2008) the most researched entry modes, wholly owned investment, joint venture and contractual agreement, are discussed in this chapter.

Section 2.2 Wholly Owned Investment

One of the crucial decisions when deciding to expand into a new market, is the decision to acquire or cooperate (Mata and Portugal, 2000). The choice between acquire through wholly owned investment and cooperate through joint venture is one of the most important decisions in order to enter foreign markets (Cui and Jiang, 2009). Buckley and Casson (1998) state that wholly owned investment is similarly with a normal FDI. The entrant of the foreign market owns foreign production and distribution facilities. According to Mutinelli and Piscitello (1998) the entrant owns more than 95 % of the shares. In addition, wholly owned investment is divided in two parts: acquisition and Greenfield (Pan and Tse, 2000).

Section 2.2.1 Acquisition and Greenfield investment

Acquisition refers to the purchase of stock in an already existing company, in an amount sufficient to exercise control. Greenfield Investment is a start up investment in new facilities in the foreign market (Kumar and Sabramanian, 1997). Distinguish between those two modes is researched by Mata and Portugal (2000). Mata and Portugal (2000) state that firms entering by acquisition are more likely to divest from their investment than those entering through Greenfield entry. Foreign firms entering by acquisitions are less likely to be shutdown than those entering through Greenfield entry. They (Mata and Portugal, 2000) also conclude wholly owned entry modes with a larger human capital endowment experience a lower probability of divestment and closure. Regarding the choice between acquisition and Greenfield investment, transaction cost theory stresses the distinction between exploiting existing resources and acquiring new resources. When firms seek to exploit their superior organizational and technical expertise, they often prefer Greenfield entry as a way to install their managerial practices from the outset (Mata and Portugal, 2000). Both, acquisition and Greenfield investment, require a high level of financial investment and risk through their choice for ‘full’ (at least 95 %) control entry mode (Buckley and Casson, 1998). The next section summarizes ‘full’ control advantages of both, acquisition and Greenfield investment, through describing advantages of wholly owned investment.

Section 2.2.2 Full control advantages

Full control mode provides the option to utilize firm resources and capabilities. Ownership helps to introduce the experience, technology and management capabilities of the organization (Grant, 2008). In this way an organization can control the success of the foreign market entry. Full control ownership requires a high level of involvement. The entrant has the opportunity to implement organization's strategy (Buckley and Casson, 1998). When an entrant has a specific advantage and the host industry has the feature of high competition intensity, a wholly owned investment is more appropriate for the investing firm to concentrate on its advantage and to strengthen its competitive position in the harsh environment (Cui and Jiang, 2009). Brouthers (2002) states that firms perceiving high transaction cost (high finding, negotiation and monitoring costs) in a market, tend to use wholly owned modes. So, when firms make high asset specific investment, it is likely to use wholly owned modes of entry. He also concludes that wholly owned modes of entry are useful in countries with few legal restrictions. Firms entering markets characterized by low investment risks tend to use wholly owned modes of entry.

Section 2.3 Joint Ventures

Joint ventures have developed quite rapidly in a number of sectors from the end of the 1970s (Mutinelli and Piscitello, 1998). Joint venture, or partial ownership, is the association of assets of two or more firms in a common and separate organization (Chang and Rosenzweig, 2001). They have generally been interpreted as the types of transaction undertaken by two or more partners and which are intermediary between contractual agreements on a market and wholly owned investment (Mutinelli and Piscitello, 1998). According to Buckley and Casson (1998) there are three conditions to joint ventures. First the possession of complementary assets. Second there must be opportunities for collusion, and third, the organization must have barriers to full integration (wholly owned investment).

Organizations choose for joint venture because of its advantages. Chang and Rosenzweig (2001, pp. 748) explain the advantages of joint venture as follows: "joint ventures may at times be the only entry mode allowed by the host government, but in many instances are also the preferred mode as they allow a firm to limit initial risk, and later expand or terminate the investment depending on the joint venture's performance or some other strategic consideration". According to Hamel, Doz and Prahalad (1989) joint ventures depends on a clear recognition that partnership is competing strategically in a different form. They argue that how the joint venture benefits are shared depends on three factors. First the strategic intent of the partners: the more specific a firm is about its strategic goals with joint venture, the more likely it is to achieve a positive result from its joint venture. In addition, the ability of each partner to capture and utilize the skills of the other depends on the nature of each firm's skills and resources. Skills and resources are tangible or explicit and can easily be acquired. Where they are know-how and people embodied, they are more difficult to acquire. Third, the receptivity of the company is important. That means when a firm is more receptive in terms of its ability to identify what it wants from the partner, to obtain the required knowledge or skills, and to assimilate and adapt them, the more it will gain from the partnership. In order to attain the advantages of joint ventures it is necessary to know in which situation joint venture is appropriate.

A joint venture entry mode is appropriate when the host industry faces a favorable demand condition with great growth potential. This mode is more time-efficient for the investing firm to seize the growth opportunity prior to competitors (Kogut and Singh, 1988). This is in contradiction with Brouthers (2002), he opines that firms which enter high growth markets better choose for wholly owned modes of entry as for joint ventures. The argument of Kogut and Singh (1988) is true, but also does Brouthers' (2002) opinion. He suggests that it gives opportunities to control your organization in host country. When entering high growth markets with wholly owned modes it is easier to build market share and reputation (Grant, 2008). Not dependable of growth markets results low transaction costs and low specific investment to use a joint venture entry mode. Also markets where investment risk is high and firms enter markets with many legal restrictions tend to use joint venture modes (Brouthers, 2002).

Section 2.4 Contractual modes

Refering to the existing literature, most researched entry modes are wholly owned investment and joint ventures. Third on the list are contractual agreements, such as licensing and exporting (Canabal and White, 2008). Pan and Tse (2000) explain contractual agreements as binding contracts between the firm and an agent to produce and distribute the goods in the foreign market in return for some form of economic benefits. Contractual agreements are likely to use when firms do not have the resources and capabilities to form ownership. They are also used when the host country has strong restrictions on entrants and import. Exporting is a good entry mode if it is not possible to establish the firm in the host country. Licensing is advanced by franchising and is similar as exporting based on long term contracts (Grant, 2008).

Section 2.4.1 Licensing or exporting

Well known parts of contractual agreements are licensing of patent and franchising (Buckley and Casson, 1998). A key issue that arises in the licensing of a firm's trademarks or technology concerns, is the transaction costs as compared with internationalization through a fully owned subsidiary. Issues of transaction costs are fundamental to the choices between alternative market entry modes. Pan and Tse (2000) define exporting as a separate non-equity entry mode. However exporting is strongly related to contractual agreements because it is based on long term contracts (Grant, 2008). Barriers to exporting in the form of transport costs and tariffs are forms of transaction costs; other costs include exchange rate risk and information costs. In the absence of transaction costs in the markets either for goods or for resources, companies exploit overseas markets either by exporting their goods and services or by selling the use of their resources to local firms in the overseas markets (Grant, 2008). An important difference between licensing and exporting is the opportunity with licensing to use patents and concepts of host country firms.

Section 2.5 Conclusion

When a firm enters another market, minimal involvement with export is desirable, according to Pan and Tse (2000). When the firm wants more knowledge and experience in that market, it will assume a higher level of commitment with higher levels of risk, control and profits. The choice between a full control entry mode such as wholly owned investment and partial control entry mode such as joint venture is one of the most important decisions to make before establishing in a host country (Cui and Jiang, 2009). Contractual agreements, such as licensing and exporting, are the third most researched field of market entry modes (Canabal and White, 2008). The advantages of entry modes are dependable of situational and organizational characteristics (e.g. high growth market and resources) to know which entry mode is most appropriate.

CHAPTER 3 Organizational factors influence foreign market entry

Chapter 3 answers the research question: 'which organizational factors influence foreign market entry decision?'. Section 3.1 defines what are organizational factors? In order to explain the organizational factors, section 3.2 goes in further detail about the relevant organizational factors for this thesis. Relevant organizational factors are the factors which influence organization's foreign market entry decision. Section 3.2 is divided in tangible and intangible resources to summarize the main influencing factors. In section 3.3 the conclusion of this chapter will be given.

Section 3.1 Organizational factors defined

In this chapter the characteristics of organizations are described as organizational factors. Section 3.2 refers to the characteristics which influence the entry mode decision. According to Johnson, Scholes and Wittington (2006) organizational factors are firm specific resources of organizations. They define this in other words, strategic capabilities. Strategic capability is the adequacy and suitability of the resources of an organization for it to survive and prosper. The adequacy and suitability to survive is important for each foreign market entry (Hill et al., 1990). Hill et al. (1990) describes strategic and transaction variables which influence the entry mode decision. Strategic variables refers to the extent of national differences, scale economics and host country competition. Value of firm-specific know-how describes the transaction variables. They also suggest that environmental circumstances exist which influence entry mode decision. Environmental variables are showed in chapter 4, where the influence of environmental factors on foreign market entry decision is described. This section describes the headlines of organizational factors.

According to Cui and Jiang (2009) environmental factors and organizational resources have high influences on the entry mode decision of wholly owned investments or joint ventures. For example, when firms have high financial resources, they prefer wholly owned investment (Cui and Jiang, 2009). Pehrsson (2006) states that entry mode choice is dependable of some resources (e.g. firm size, foreign business unit experience, product/market relatedness) and environmental factors such as host country competition and market growth.

Further Johnson et al. (2006) suggest resources exist of tangible and intangible resources. Tangible resources are the physical assets of an organization such as plant, labour and finance. Intangible resources are non-physical assets such as information, reputation and knowledge. Tangible and intangible factors are useful to describe the organizational factors (Johnson et al., 2006). Section 3.2 goes in further detail about the resources which influence foreign market entry decision.

Section 3.2 Resources

"Resource availability refers to the financial and managerial capacity of a firm for serving a particular foreign market" (Agarwal and Ramaswami, 1992, pp. 3). According to Johnson et al. (2006) resources can be considered under the following four broad categories: physical resources , financial resources, human resources, and intellectual capital. Human resources include the number of people in an organization and their skills and knowledge. Intellectual capital refers to reputation and information sharing of customers and businesses. Each entry mode requires different resources (Hill et al., 1990). One of their central themes is that different resources often suggest different entry modes. They support the dichotomy of resources of Johnson et al. (2006) into tangible (e.g. physical plant) and intangible resources (e.g. management know-how). Making success of an entry mode it is necessary to utilize organization's resources in the best way (Hill et al., 1990). Section 3.2.1 summarize tangible resources which possible influence foreign market entry decision. In section 3.2.3 the influence of intangible resources on foreign market entry decision is described.

Section 3.2.1 Tangible resources

Tangible resources are defined by Johnson et al. (2006) as the physical assets of an organization such as plant, human resources and finance. Grant (2008) complements this with products and distribution. How to use this resources in order to attain advantages when a firm decided to enter other markets? Agarwal and Ramaswami (1992) explain the impact of ownership on foreign market entry modes. Ownership advantages are firm size, management experience and the ability to develop differentiated products. The influence of firm size on entry modes is researched by 97 firms in Europe. Firm size includes human resources and plant. Smaller firms have a higher propensity for entry through joint venture mode. These firms are interested in high growth markets, but do not have the requisite resources to do so by themselves. This is supported by Cui and Jiang (2009) which suggest that firms are more likely to enter high potential markets through joint ventures as through wholly owned investments. Firms do show preference for specific entry modes when they have high ability to develop differentiated products (Agarwal and Ramaswami, 1992). First they state firms which have higher abilities to develop differentiated products show a preference for high investment modes of entry in markets that are perceived to have higher contractual risks. Contractual risk refers to the perceived risk of dissipation of knowledge, quality of services and costs of writing and enforcing contracts. On the other hand, firms that do not have abilities to develop differentiated product may choose a contractual mode, even when the risks are high. According to Pehrsson (2006) product and market relatedness between a foreign business unit is positively associated with a full control entry mode. High financial potential also results to more control through foreign direct investment such as wholly owned investment (Brouthers, 2002). Brouthers (2002) suggests that if firms making high asset specific investment, it is more likely to enter through wholly owned investment as through joint venture modes. To summarize, higher product-, financial- and firm size resources results to more control entry modes.

Section 3.2.2 Intangible resources

Intangible resources include management and technical skills and resources related to brand identity and recognition (Pehrsson, 2006). Johnson et al. (2006) related intangible resources to intellectual capital and divide it into three parts: information, reputation and knowledge. Cui and Jiang (2009) describes motivation as an intangible resource which influence entry mode choice. In 1980, Hofstede states that motivation has influence on the adaptation of an entry mode. This is supported by Cui and Jiang (2009), they explain the influence of motivation on foreign market entry. If firms intent to seeking assets and implement their strategy in other countries they prefer wholly owned investment above joint venture or contractual agreements. Or as Chen and Mu (2002) states, long term motivation is positively related to a high control entry mode. According to Grant (2008) it is likely to establish a partnership to enter other markets by joint venture mode when the firm do not have knowledge of the country and customer preferences. Small firms with limited international experience were found to prefer entry into other markets by joint venture mode. In contradiction with organizations which have a lot of international experience. They use their knowledge to enter with full control entry mode (Agarwal and Ramaswami, 1992). Another factor who influence foreign market entry is reputation. Reputation influence the ability to enter other markets. Entry through contractual agreements is more likely if another firm has great reputation in host country. Higher firm's reputation leads to more opportunities to enter with a full control entry mode (Kumar and Sabramaniam, 1997). When organizations introduce new concepts in other countries it is more likely to enter markets by wholly owned investment (Johnson et al., 2006). More information of customers and markets leads to risk reduction and so it stimulates more control entry modes (Grant, 2008).

Section 3.3 Conclusion

Organizational factors are firm specific resources of organizations (Johnson et al., 2006). Cui and Jiang (2009) state that environmental factors and organizational resources have high influence on the entry mode decision. There are two parts of resources, tangible- and intangible resources. Tangible resources are the physical assets of an organization such as product-, financial and firm size resources. Summarizing the tangible resources, higher resources lead to higher control entry modes. Intangible resources are non-physical assets such as information, reputation, knowledge and motivation. More knowledge and motivation results into more control entry modes. Higher reputation results to greater opportunities for full control entry modes to enter foreign markets. Information of customers and markets leads also to higher control entry modes.

CHAPTER 4 Environmental circumstances influence foreign market entry

In this chapter, first, an introduction to environmental circumstances is given. The next section goes in further detail about the influence of economic circumstances on foreign market entry. In section 4.3, the relation between cultural circumstances and foreign market entry is explained. In the last section, the conclusion of Chapter 4 is given. The question that is answered in this chapter: which environmental circumstances influence the decision to enter foreign markets?

Section 4.1 Environmental circumstances

Environmental circumstances refer to factors which cannot be influenced, but are important to understand. As Johnson et al. (2006, pp. 65) state "environmental factors are important to build up an understanding how changes are likely to impact on individual firms". A starting point can be provided by the PESTEL framework of Johnson et al. (2006) which can be used to identify how future trends in the political, economic, social, technological, environmental and legal environments might impinge on foreign market entry. For all the advantage of foreign market entry, the evidence of the past decade is that national differences continue to exert a powerful influence in entry mode choice . National differentiation is influenced by several factors: economic situation, laws and government regulations, distribution channels and national cultures (Grant, 2008). The influence of economic situation and matching risk in host country is widely discussed in the literature (e.g. Brouthers, 2002; Mutinelli and Piscitello, 1998; Hill et al., 1990). Brouthers (2002) discussed regulation and restriction by host country on foreign market entries. Research to technological opportunities in other markets is done by Mutinelli and Piscitello (1998). Weicher and Kang (2005) investigate the national differentiation of distribution through transport and tariffs costs. The theme of national differentiation is among other things researched by Chen and Mu (2002). They analyze the impact of culture distance on foreign market entry decisions. Now a basic overview is presented of the environmental factors which influence entry mode choice. The next section go in further detail about economic environmental circumstances as demand uncertainty, country risk, technological opportunities and distribution channels. Section 4.3 relates culture environmental circumstances to entry mode decision.

Section 4.2 Economic situation influence entry mode decision

The host country economic situation is not amendable by entrants of the market, however it is important to recognize it (Johnsson et al, 2006). Economic circumstances in host country affect the entry mode choice in different ways. First there is demand uncertainty such as competition intensity and market growth (Kim and Hwang, 1992). Strong related to demand uncertainty is country risk (Hill et al., 1990). Higher risks result into more uncertainty. Country risk refers to four types of risk. These are general political risk (e.g. instability of political system), control risks (e.g. expropriation, intervention), operations risk (e.g. price control, local content requirements), and transfer risk (e.g. currency inconvertibility risk).

Returning to demand uncertainty, Hill et al. (1990) related uncertainty to entry modes. When demand uncertainty for products is high, firms will favor entry modes that involve low resource commitments. Demand in markets is dependent of market growth and competition intensity (Agarwal and Ramaswami, 1992). More competition is negatively related to firm's demand. The greater the intensity of competition in host market, the more firms will enter the market with low resource commitments (Kim and Hwang, 1992). Nevertheless, Cui and Jiang (2009) suggest that high competition intensity requires wholly owned investment. Both ways of reasoning are possible, low resource commitment is less risk full and wholly owned investment gives control to the activities in other markets. Market growth is positively related to the demand of products and services. In countries characterized by high market growth and high country risk, firms show a lower preference for control (Agarwal and Ramaswami, 1992). High country risk influence the willingness to control firms, in other markets. More country risk results into lower commitment in other markets. Brouthers (2002) supports that markets characterized by high country risk are more likely to enter by joint venture, while markets characterized by low country risk tend to enter by wholly owned modes.

High risk markets are commonly characterized by dynamic technological processes (Mutinelli and Piscitello, 1997). Technological processes are difficult to manage through high investments (Hall and Tolbert, 2005). Those processes are dependent of the speed of technology transfers and government investments in home country technology (Johnsson et al., 2006). The greater technology transfers and home country technology in markets, the less attractive the market is to control. In other words, higher technological intensity of the industry in which a foreign market entry takes place is more appropriate for less control entry modes (Mutinelli and Piscitello, 1998). Besides demand uncertainty, country risk and technology, distribution influences entry mode decision (Weicher and Kang, 2005). As distribution barriers, such as import tariffs, increase then full control entry modes are recommended. In this way firms evade the barriers. Distribution barriers can also influenced by restrictions. The importance of restrictions is based on the fact that firms could be forced to choose a joint ventures or contractual agreement to enter a foreign market regulated and influenced by host governments (Mutinelli and Piscitello, 1998). Brouthers (2002) states that firms entering countries with few legal restrictions on mode of entry tend to use wholly owned investment while firms entering countries with many legal restrictions on mode of entry tend to use joint venture.

Section 4.3 Cultural distance

According to Hall and Tolbert (2005) culture is not a constant. Culture exists of shared values and beliefs. Cultural distance is the difference in these values and beliefs shared between home and host countries. Large cultural distances lead to high transaction costs for multinationals investing overseas (Cheng and Mu, 2002). Should investors select high or low control mode when faced with large cultural difference?
Underlying differences between countries in customer preferences and business methods are typically the result of difference in host country cultures. Culture comprises assumptions, values, traditions and behavioral norms. At its most general, culture may be described as a shared system of meaning within a group or society. The need to adapt to local cultures may influence the mode of entry chosen. Contractual agreement is an attractive entry mode for firms because it utilizes the knowledge and cultural identity of local partners. Most western companies have relied on contracts with local firms rather than face the cultural challenges of establishing their own overseas units (Grant, 2008).

According to Chang and Rosenzweig (2001) cultural distance between the home market and the host market will be positively associated with greenfield investment rather than acquisition or joint venture. This means that full control entry modes are more likely as partial control entry modes in situations of high cultural distance. This do not agree with Grant (2008), he states that with high cultural distance contractual agreements are more attractive as wholly owned investment. Nevertheless, note that if firms adapt and learn of other cultures it is more likely to full control their investment. Mutinelli and Piscitello (1998) are more specific about cultural distance and focus on sociocultural distance. Sociocultural distance exists of factors which are related to population, income distribution and levels of education (Johnsson et al., 2006). Mutinelli and Piscitello (1998) suggest that the higher the sociocultural distance between home and host countries, the lower the degree of control demanded by foreign investors. Concluded can be state more (socio-) cultural distance markets tend to use low control entry modes. Except in situations when a firm adapts and learns of other cultures.

Section 4.4 Conclusion

As Johnson et al. (2006) state “environmental factors are important to build up an understanding how changes are likely to impact on individual firms”. There are four areas of economic environmental factors: demand uncertainty, country risk, home country technology and distribution restrictions. Demand uncertainty exists of market growth and competition intensity. Higher market growth and more competitors leads to less willingness of control. More competitors could also support wholly owned investment. Through more local control, firms can better manage their foreign activities. Higher host country risk result to lower resource investment. Distribution barriers stimulate the need for control. Countries with less legal restrictions on mode of entry are attractive for contractual agreements. In addition to the economic circumstances there are cultural circumstances. The influence of cultural circumstances on foreign market entry is researched by Mutinelli and Piscitello (1998). They suggest more (socio-) cultural distance markets are likely to use low control entry modes. Except in situations when a firm adapts and learns of other cultures.

CHAPTER 5 Conclusion, discussion, limitations and recommendations

This chapter gives a conclusion to the problem statement: 'on which organizational and environmental factors is an organizations entry mode choice based in order to attain entry mode advantage?'. Research to this topic leads to discussion, limitations and recommendations. In section 5.1 the conclusion on the problem statement will be given. Section 5.2 shows the discussion and recommendations of this study. Finally, the limitations are placed.

Section 5.1 Conclusion

This study shows that organizational and environmental factors influence entry mode choice in order to attain advantages. Thus, the study extent knowledge of the important issue of foreign market entry and the organizational- and environmental factors which influence the foreign market entry decision. In addition to existing literature and factors which influence entry mode choice, this thesis focuses on the relatedness between both in order to attain advantages. This resource-based view is more precise about the important factors which influence firms entry mode to achieve success. Three research question helps to solve the problem statement 'on which organizational and environmental factors is an organizations entry mode choice based in order to attain entry mode advantages?'

First it is necessary to know which entry modes exist and what are their advantages? Minimal involvement is desirable when a firm enters another market, such as exporting. If firms have more knowledge and experience in that market entry modes as wholly owned investments are more likely to use (Pan and Tse, 2000). To trace out all articles of entry modes, the three most important entry modes are used to explain this question: wholly owned investment, joint venture and contractual agreement (Canabal and White, 2008). Wholly owned investments are full control entry modes, because they owns at least 95 % of the shares. This investment exist of local ownership through Greenfield investment or only through acquisition of the shares and so realize control. Wholly owned investment exists of high investment and consequently high risk and profits. To provide a high degree of control this is necessary. Joint venture mode involves lower control, investment, risk and return as wholly owned investment. Contractual agreements as licensing and exporting are mostly based on long-term contracts. The licensing mode, such as franchising, is a low investment, low risk and low return alternative to get advantages of a foreign market entry. Finally, exporting is a entry mode based on low resource commitment and consequently low risk and return.

Next, the organizational and environmental factors are needed to solve the problem statement. The advantages of entry modes are dependable of situational and organizational characteristics (e.g. high growth market and resources) to know which entry mode is most appropriate. Organizational factors are explained by firm specific resources (Johnson et al, 2006). There are two parts of resources, tangible- and intangible resources. Summarizing the resources, higher resources lead to more control entry modes. More knowledge and motivation results into more control entry modes. Higher reputation results to more opportunities for full control entry modes. Information of customers and business leads to more control entry modes. Environmental circumstances are divided in two parts: economic situation and cultural distance. the economic situation is divided in demand uncertainty, country risk, home country technology and distribution barriers and restrictions. Demand uncertainty is related to market growth and competition intensity. Higher market growth and more competitors leads to less willingness of control. More competitors could also support wholly owned investment. More control of the foreign activities can be required to beat the competitors (Cui and Jiang, 2009). The greater the host country risk, the lower the resource investment. And more distribution barriers stimulate the need for control. Countries with a few legal restrictions on mode of entry tend to full control entry modes (Brouthers, 2002). In addition to the economic situation circumstances there are cultural circumstances. The influence of cultural circumstances on foreign market entry is researched by Mutinelli and Piscitello (1998). They suggest more (socio-) cultural distance markets are likely to use low control entry modes. Except in situations when a firm adapts and learns of other cultures.

Returning to the problem statement a few things can be concluded. Motivation and knowledge of firms is more important than the literature focused on. A firm without specific motivation and knowledge of customer preferences and the foreign market do not have success (Levitt, 1983). What do a firm wants? High involvement and long-term profits or low involvement and short-term profits? And which tangible resources, higher product-, financial- and firm size resources results to more control entry modes in order to attain advantage. This study represents six resources which influence the entry mode choice: product-, financial-, firm size-, knowledge-, motivation- and reputation resources. A point of view with these factors in one thesis is never presented. All resources concerns that the higher the resources, the greater the opportunity to full control entry mode. Nevertheless, environmental circumstances have also high influences on success of an entry mode choice. Cultural distance can result to adapt their strategy in other markets. Greater (socio-) cultural distance can lead to the need of more control. A firm can better administrated the investment. Higher growth markets and more competitors are attractive for joint ventures and contractual agreements. To control the country risk and technology transfers firms will be better with partial control entry modes. In countries with a few of distribution restrictions firms could better opt for wholly owned investments.

Section 5.2 Discussion and recommendations

The findings in this study support associations between entry modes and organizational and environmental circumstances. More precisely, an entry mode is based on organizational factors and environmental circumstances in order to attain advantage. Wholly owned investment is divided in acquisition and Greenfield investment, but further in this thesis it is seen as one entry mode. This is done because both entry modes are characterized by the target of full control. Nevertheless it is possible to investigate both ways and their related circumstances. It is remarkable that authors are not consistent about the influence of growth markets. Cui and Jiang (2009) suggests that high competition in host country requires full control entry mode. But Kim and Hwang (1992) states, the more intensive the competition, the lower resource commitments. Both ways are possible, it is dependable of the risk taking by firm's management. Another note is related to cultural distance. Also notes that cultural distance is discussed in different ways. Chang and Rosenzweig (2001) argue that high cultural distance results into preferences of wholly owned entry modes. In 2008, Grant states that with high cultural distance contractual agreements are more attractive. This contradiction exists because it is dependable of firm's motivation and knowledge what to do with other cultures, adapt or do only business agreements.

After this thesis, there are three directions for future research of the relatedness between entry mode and organizational factors and environmental circumstances. First, future research should provide a sample in each industry. This gives more specific advantages of the factor related to the entry mode. A second direction for future research is to investigate each factor. The influence of the factors are overviewed in a new framework. This framework is not tested by a sample. Such studies can provide more practical implications that are relevant for firms (Cui and Jiang, 2009). Finally it is recommended to do research in more entry modes. This study choose for the three most well known entry modes. Nevertheless it is possible to explore more entry modes, or combine different entry modes. More surveys to entry modes and their relatedness with organizational factors and environmental circumstances should lead to a better overview which specific aspects are important in order to attain advantage of firm's entry mode choice.

Section 5.3 Limitations

As research in earlier studies, this study is not without limitations. A descriptive study is focused on secondary data and mainly does not include empirical data. There is no data to generalize the conclusion. Next, this thesis does not give a complete overview of all literature, but only considers the literature of at most 30 years ago. An important limitation to this study is the lack of empirical data. Another limitation is in the area of segmenting. The researcher choose for a broad research area to overview important circumstances. But it is possible that some segments are mainly influenced by other factors. Finally this focuses on three entry modes, in practice more entry modes are possible. The conclusion do not support all entry modes.

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