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SME's Entry Mode Choice between Equity and Non-Equity Entry Modes: Study of Influence of Industry Characteristics

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Management Summary

Entry mode strategy as a part of internationalization by Multinational Enterprises (MNEs) has been the focus of both past and recent studies. However, some researchers nowadays have begun to discuss the entry mode strategy as a means of internationalization on the part of Small Medium Enterprises (SMEs). External environments such as the industry SMEs enter will influence their first-level entry mode decision. Thus, this research will study the influence of industry-specific factors on the choice between entry mode decision, considering the characteristics consist of four variables, which are technology, growth, capital intensity and concentration level in relation to the resource-based view and transaction cost theory.

Greater industry entry requirements and greater perceived risks to the firm make it more difficult for SMEs to enter with high-control and -commitment equity entry mode, such as joint venture and WOS. On the other hand, if SMEs see the opportunity to generate profit and expand their business in a particular industry, equity entry mode strategy is preferable since the investment promises high return. The finding therefore concludes that the SMEs do differ from MNEs not only in the structural aspects of the organizations but also in the entry mode strategy. It becomes clear that regardless of the size and structure of the firm, the capabilities, resources and cost must be considered when a firm wants to enter certain industry with different unique characteristics.

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INTRODUCTION

This bachelor thesis is written as the requirement to complete the Bachelor of Science at Tilburg University. A literature research has been conducted, which contributes to the existing literature in the field of organization and strategy. The introduction will provide an overview of the topic and the problem to be studied.

I.1 PROBLEM INDICATION

Differences between SMEs (Small and Medium Enterprises) and MNEs (Multinational Enterprises) are seen not only from the structural aspects of both enterprises but also from the decision-making of entry mode choice (Erramilli & D'Souza, 1993). Extensive research has been conducted on the topic of entry mode choice and internationalization. Even though there is much research about entry mode choice, Brouther and Hennart (2007) stated that most of the studies in entry mode choice focus more on the multinational firms than on SMEs.

Possible theoretical explanations of the entry mode choice for SMEs include the resource-based view theory (RBV) and the transaction cost theory. Alvarez and Busenitz (2001) put forward the RBV theory in their research on entrepreneurship, suggesting that opportunities come out when certain individuals get insight into the resources value that others do not. Thus, SMEs can see the opportunity over its given resource. In addition, Dickson et. al. (2006) use the extended of resource-based view to explain behavior of SMEs in relation to institutional environment and SMEs' opportunism. On the other hand, Brouthers and Nakos (2004) found that the transaction theory can be applied to explain the entry mode choice of SMEs. Thus, the main focus on this research will be the resource-based view, supported by the transaction cost theory.

In understanding the internationalization process in SMEs, scholars must consider the external and internal factors that structure the pattern of SMEs' entry mode choice. Since Brouther and Hennart (2007) show how many studies prove that most industrial sectors are exposed to international competition nowadays, this research will focus on external factors, namely industry-specific characteristics.

The term “industry” is commonly defined as the united of individual entities which are classified in relation to the same product type, production technology and market attributes (Boter & Holmquist, 1996). Existing literatures show that these industry characteristics may have a direct impact on a firm’s choice of entry strategy, though how the firm effects this decision still needs to be formulated precisely. Nowadays, firms must consider technology when entering a particular industry. Some researchers including Li and Qian (2008), have suggested that technology does have a different impact on SMEs than on larger companies in their choice of entry strategy. In addition, Dess and Beard (1984) determined that industry growth also influences the extent to which organizations endeavor to manage interdependencies and complexities; thus, entry choice is related to business strategies. Other key industry factors affecting the entry mode strategy include capital intensity and R&D intensity as the result of technological development. Entry mode study shows that in term of competition, the behavior of a firm in entry (Pan & Tse, 2000) mode study is affected by other firms in its industry, both its domestic rival and incumbents (Brouther & Hennart, 2007). This effect shapes the degree of concentration level in its industry. Therefore, adding the concentration level as the last variable is essential to the examination of SME entry mode choice.

Hennart’s distinction between equity and non-equity entry mode (1988, 2000) offers insight into the study of SMEs’ internationalization process in entering a new industry. Williamson (1985) suggests that companies would implement a certain structure for example like non-equity modes versus equity modes, based on how the efficiency of one structure offered over the alternative structure. This choice is also defined by Pan and Tse (2000) as the first level of entry mode decision, where SMEs must deal with its limited resources and capabilities. In addition, at the macro level at which industry factors come into play, the impact of this type entry mode choice is high (Pan & Tse, 2000). Thus, the following research will concern itself with the choice between these two strategies.

I.2 PROBLEM STATEMENT

The central question to be answered in this research is:

What is the impact of industry characteristics on SMEs’ entry mode choice between equity (JV and WOS) and non-equity (contractual agreements and exporting activities)?

I.2.1 Definition

In order to avoid misinterpretation, the definitions of key terms in the problem statement are as follows:

Small-and-Medium Sized Enterprises (SMEs)

In international markets, this type of enterprise is characterized by resource constraint and lack of market power, knowledge, and resources (Knight 2000). SMEs may commit to different entry modes with respect to benefit and cost (Sharma & Erramilli, 2004).

Dependent Variables: Equity and Non-Equity Entry Mode

According to Decker and Zhao (2004), equity and non-equity entry mode are distinguished from each other based on the resource commitment level. JVs and WOS are classified as the equity entry mode, while the contractual agreement and exporting activities are part of the non-equity. Contractual agreements consist of license, R&D contract and alliance. Considering an equity entry mode over non-equity requires time and risk due to the greater chance of failure and diversifying risk by themselves (See APPENDIX 1).

Independent Variables: Industry characteristics

Technology: Firms in high-technology industries are characterized by short product cycles, violent market dynamics and high promotional spending (Li & Qian, 2008). In high-technology industry, fast product replacement frequently occurs (Li & Qian, 2008), which leads to transforms in market demand structure and competition structure (Deeds, et al. 1999). Porter (1985) argues that creating market awareness is important in high-technology industries. Hence, firms must invest in heavy R&D and promotion to cover the high risk associated with the high investment.

Growth: In a high-growth industry, many firms will experience resource generosity, generated by the dramatically increasing revenues and opportunities (Dess & Beard, 1984). In contrast, Gordon (1985) determines that low-growth industries, such as utilities, depend upon stability and reliability.

Capital Intensity: A capital-intensive industry refers to an industry which requires a substantial amount of capital invested for the production of goods. These industries possess the ability to generate higher income and profit as the capital intensity of capital-intensive industries result in higher level of productivity.

Concentration Level: If the major market share is held by the largest firms, an industry is considered concentrated. The setting is less competitive and closer to a monopoly, with only a few firms holding a large market share. On the other hand, a low concentration level indicates that the industry is characterized by many competitors none of which has a significant market share. These fragmented markets are said to be competitive as well as the high concentrated industries. Moreover, the term of industry concentration level is used to define industries in terms that transmit more information than the market share distribution.

I.2.2 Theoretical Approach

In explaining SMEs entry mode choices, selecting the best theory is important in order to achieve comprehensiveness in the research. When a firm decides to enter a new market, it considers the resource and the cost required to sell and service the product effectively in foreign market (Susman, 2007). Thus, this research will use the resource-based view as the main theory, supported by transaction cost theory in relation to industry characteristics.

- *Resource-Based View*

  As Kor and Mahoney (2004) stated in their research the resource-based view that is originally invented by Penrose in 1959, is a contribution to the study of strategic management. This theory describes the firm as a bundle of resources (Kor & Mahoney, 2004). Penrose also conceives that the growth of the firm is both facilitated and limited by management through the best usage of available resources. Barney (1991) offers an accurate and official description of this perspective. A firm's resources (consisting of assets, capabilities, processes, attributes, knowledge and know-how) play a role in formulating and implementing its competitive strategies.

- *Transaction Cost Theory*

  From a transaction theory perspective, a firm needs to consider two main costs, market transaction costs and control costs, as their part of internationalization process (Williamson, 1985; Hennart, 1989). These costs occur as the result of environmental and behavioral uncertainties, opportunism, and asset specificity (Rindfleisch 7 Heide 1997). Heide (1994) states both environmental and behavioral uncertainties refer to the market changes that is unpredictable together with the uncertainty of possible firm action of reaction. Such unpredictability leads to the contractual constraints, which denote every possibility and consequent response become more ineffective (Heide, 1994). The opportunism can be defined as acting based on self interest with astuteness (Williamson 1985). Lastly, Williamson (1985) also suggests that asset specificity refers to the fact that the relation between partners is transaction-specific assets that cannot be reorganized easily.

I.3 RESEARCH QUESTION

Industry characteristics will act as focus in this research. It leads to the following research questions derived from the problem statement:

1. *What is the influence of technology on SME's equity entry mode decision?*
2. *What is the influence of growth on SME's equity entry mode decision?*
3. *What is the influence of capital intensity on SME's equity entry mode decision?*
4. *What is the influence of concentration level on SME's equity entry mode decision?*

1.4 RELEVANCE

Many literatures on SMEs and their relation to the entry mode decision discuss only a specific theory and/or factor. This study is meant to offer new insights and contributions to the existing literature in order to describe the process of decision-making whenever SME chooses equity instead of non-equity as their first level entry mode choice. Moreover, the specification and limitation in the field of industry characteristics is important to reach deeper understanding in the decision process of SME entry mode strategy.

From the managerial perspective, if an entry mode decision is considered an important strategic decision and "the success of SMEs under globalization depends on the formulation, in large part, and on the implementation of the strategy" (Knight, 2000) (p.20), the strategic behavior of smaller companies must be investigated. The result also provides insight for managers aiming to position their firm within an industry.

1.5 RESEARCH DESIGN AND DATA COLLECTION

This section will present descriptive research, beginning with an explanation about the nature of SME. This research will also discuss and elaborate the differences between choosing either equity or non-equity as an entry mode, and will explain industry characteristics in terms of variables that would affect the SME's choice of entry mode strategy. Though this descriptive research will focus on a literature review of the considered variables in relation to the transactional cost theory and resource-based view, the aim is to offer insights into why SME would likely to choose equity instead of non-equity as their entry mode based on the industry characteristics.

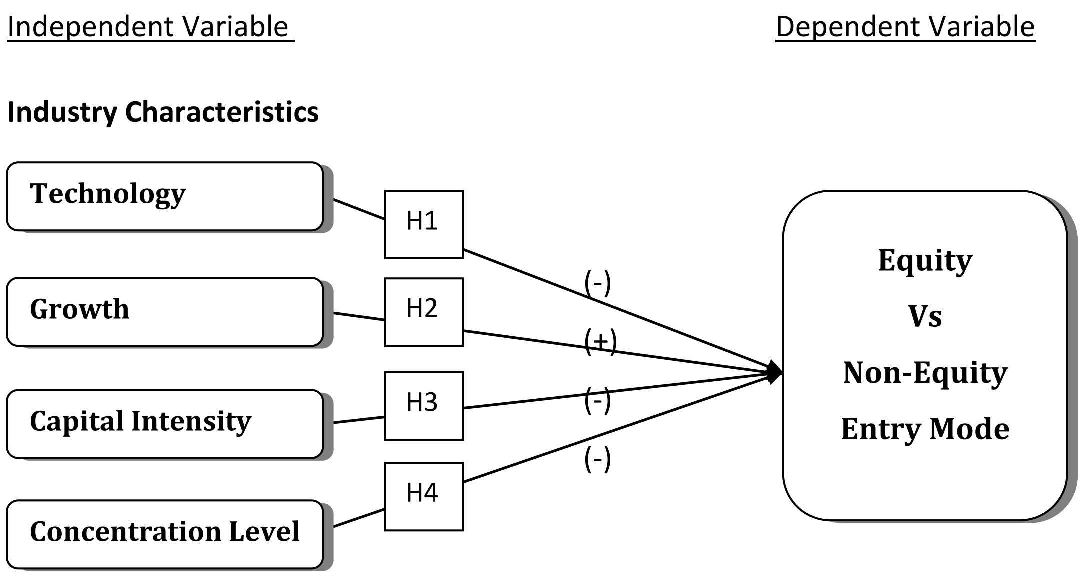
This research uses secondary data collected from online databases, such as JSTOR, Science Direct and ABI/inform. Many articles and journal related to this topic are considered, especially recent, cited and updated articles. There are two main journal scope examples titled "Journal for International Business Studies" and the "Journal of Management," which will be gathered for this study. These journals are taken from the high-quality journals available through the University's information portal for students writing their bachelor Strategic Management thesis. The use of such articles involves advantages and disadvantages. One of the benefits is that a researcher can access all relevant articles published within these high-quality journals between 1980 and the present. However, many relevant articles published in other journals will not be found using this database. In order to obtain more information about the subjects, following the citations in these articles and searching trough general online database is done to gain a broader understanding of the current literature.

1.6 STRUCTURE

Chapter Two will examine the influence technology has on the SMEs' entry mode decision will be studied. Subsequently, Chapter Three will look at the influence of growth on the entry mode decision. The influence of capital intensity to SME's entry mode will be addressed in Chapter Four, and the influence of the last variable, concentration level, will be discussed in Chapter Five. Finally, Chapter Six will review the general conclusion, limitations and recommendation for both managers and future research. An answer to the problem statement will be given here.

1.6 THEORETICAL FRAMEWORK

Below is a graphical representation correlated with the research questions, along with the expected hypotheses in this research.



The plus or minus sign corresponds to the increased or decreased likelihood of choosing equity entry mode (JV and WOS) over non-equity entry mode (exporting activities and contractual agreements).

II. Technology and SME's Entry Mode Choice

Li and Qian (2008) characterize a high-technology industry by heavy investment in R&D intensity, by a short product life cycle, and by high market dynamism. The short product life cycle means only the first movers can reap the maximum profit (Li & Qian, 2008). Consequently, firms must invest heavily in R&D intensity in order to innovate ahead of their competitors (D'Aveni, 1994) and to sustain competitive advantage. Thus, in high-technology industries, the key success for the firm is innovative advantage (Porter, 1985). Moreover, most new products that are expensive in the markets are high-technology industry. As innovators, they want to generate maximum profits and benefits. In order to achieve maximum advantage, innovators then willing to cover all the expenses of heavy cost in R&D before its products becoming outdated in the market (Porter, 1985). This becomes one of the reasons why the new products with high technology are most likely to be expensive. Additionally, cost of promotion to maintain customer and avoid customer's hesitationare required for the innovators. Thus, according to Qian and Li (2007), innovators, with wide awareness in the market, will be able reach rapid sales growth before their innovations becoming outdated for the market to use its products. The "first mover" in high technology industry will gain the competitive advantage.

The resource-based view suggests that to develop such a competitive advantage, a firm must possess a product or process that is "valuable, rare, imperfectly imitable, and non-substitutable" (Barney, 1991). However, due to high market dynamism in an industry, sustained competitive advantage may not be possible. Fiol (2001) supports that in dynamic markets, the idea that competitive advantages can be presented only because of the continuoscapability of firms is to adjust to the changes. This issue contradicts the resource-based view theory. One possible explanation: in a rapidly changing market, a firm that is more nimble and more able to adapt rapidly in its competitive environment will be the one to gain competitive advantage. These special abilities are costly and hard for others to imitate, and become the source of sustained competitive advantage in such industries.

In managing aggressive market dynamism, an applicable strategy of entry modes should be wisely decided. Equity entry modes can be one of the better choices in order to cope up with such aggressive market dynamism. MNEs usually more have a firm control over their R&D, price and production, said by Heide(1994). This strict rules and control functions really well for MNE's as "Such strict control facilitates coordination between different activities located in different countries" (Li and Qian, 2007) (p.197). Thus, MNEs can innovate ahead over their rivals in the market. Furthermore, the advantage of having such a strict rules over R&D, price and production is whenever new outdated products come into the market; MNE's can easily upgrade the existing products with lower prices and will be able to extend their life span. Moreover, MNEs create cost advantages over new products due to market imperfections across countries and the economies of scale. All of these advantages will help MNEs to minimize the effects of market dynamism.

In addition, larger firms have a greater assortment of options than small firms in terms of power, capabilities and resources. Unlike large companies which have the resources to produce innovation, SMEs deal with the resource constraint. They have to develop their own unique competencies to make them enable to compete against large firms (Etemad, 2000). Equity entry mode such as wholly-owned subsidiaries and joint ventures may not work well for SMEs, since that choice requires high levels of investment and funding. SME may not be able to cover such huge funding for high R&D intensity. In spite of these financial limitations, by making contractual agreements, SME have opportunity to learn and grow. Moreover, Burgel and Murray (2000) found that the young firm in the early stage of its development operates in a high-technology industry by considering the entry process as a commitment to internationalization as a function of experiential knowledge of a foreign market.

Transaction cost theory suggests that equity entry modes allow MNEs to save cost. Through wholly-owned subsidiaries, MNEs avoid coordinating with foreign partners, prevent important information gained from R&D intensity to be known by competitors, and protect themselves from possible opportunistic acts like duplication from the competitors as the foreign partner (Hitt et al. 1997). Therefore, coordinating with foreign partners slows down the innovation process. Imagine if the firm entry strategy is alliance, the opportunistic act highly possible to incur. Having the additional impact of aggressive market dynamism, these high costs can direct to market failure.

In contrast, non-equity entry modes grant the option for SMEs to optimally manage the high market dynamism in high-technology industries. When there is high market dynamism, equity entry modes can be too costly and complex for SMEs to handle. High market dynamism significatly enhances more costs and demands. Establishing operation in overseas markets incurs high, distribution costs, management costs and coordination costs among units that are located in different market. Differences in markets, regulative approaches and exchange rate fluctuations among countries are additional perceived costs and difficulties (Wortzel & Wortzel, 1996). Such internalization also demands high distribution, management, and coordination competencies (Williamson 1985).The size constraints that are associated with SMEs limit them in capabilities of collecting and processing information and thus make internalization too complex and too costly for SMEs to manage. Due to the industry's market dynamism, high-tech industries require high adaptation and application of knowledge. Thus, the preferences to entry mode choice are characterized by relatively low resource commitment. The logic that is described above suggests the following hypotheses.

H1. In high-technology industries, SMEs are more likely to choose non-equity entry mode strategy.

III. Growth and SME's Entry Mode Choice

Growth has determined as a disequilibrium indicator (Yip, 1982), an encouraging condition associated with entry (Yip, 1982; Porter, 1980). As the growth has been defined as a market indicator, then McDougal et. al. (1994) state that for both new ventures and many established firms, it is important to view the development of the industry's growth rate. Moreover, the growth rate is also defined as a key component of market attractiveness.This is clear that recommendations are made to create an entry into a stable high-growth industry by all the ventures, both researches and capitalists for the success. For example, MacMillan, Siegel, and Narasimha's study (1985) studied that in the decision-making in which ventures wanted to fund, the venture capitalists, the most important factor is the high industry growth rate as the crucial market requirement.

Rapidly growing and unstable industries, which pose more sources of uncertainty than stable industries (Hambrick & Finkelstein, 1987), often require a wider range of competitive actions to address uncertainties. In addition, Porter (1980) suggests that rapid industry growth makes sure that incumbents can sustain a strong financial performance even though the entrants pursue some market shares. Thus, new ventures entering into rapidly growing industries would perceive less retaliation by incumbent firms. Supporting the Porter’s argument, Miller and Camp's (1985) research on the selection of markets entry strongly recommends that managers are better to search for conditions and situations in which high market growth can potentially reduce the competitive pressures effect. It is due to the fact that this competitive pressure will increase the risk for entering this market.

However, Hause and Rietz (1984) found significant statistical evidence that new firm entry is positively related to the industry growth, since it is related to profit oriented. In a high-growth industry, many firms will experience resource munificence, generated by constant increase of revenues and opportunities (Dess & Beard, 1984). On the other hand, low-growth industries characterizes by stability and reliability (Gordon, 1985), such as utilities.

Kor and Mahoney (2004) agree with Penrose claim about resource-based view aims o the resources to help discover how competitive advantage can be obviously created and understand how firms sustain that competitive advantage. Resource-based theory propose that “firms develop resource-based advantages by developing or acquiring a set of firm-specific resources and capabilities that are valuable, rare, and imperfectly imitable and for which there are no commonly-available substitutes (Barney, 1991)” (Li and Qian, 2008) (p.192). Thus, many firms are expected to develop more unique resources that they can offer in foreign markets. On the other hand, these new unique resources, which will be invented, can be aspired by the foreign markets as Brouthers and Hennart (2007) have discussed before in earlier studies. In order to in helping the firms to develop more and acquire some new resources based advantages; both entry modes strategy, the equity and the non equity entry modes are applicable. Every partner is different from another one; this could be one of the benefits to create many unique resources through the contractual agreements and export. Such resource combination becomes “core competencies” that make it difficult to be duplicated (Qian & Li, 2008). JV and WOS, on the other hand, protect the unique resources from duplication (Grant, 1991).

As it has been discussed before, the Resource-based theory recommends that it is good they make innovators unique and be different from the other players, thus their innovations are considered to be important noticing in the growing industries (Barney 1991). Equity entry modes can be the best defense strategy for companies to first establish, develop and finally maintain innovative advantages in foreign markets' competition. Never the less, firms' innovation capabilities in creating will somehow improve with contractual agreements like alliances and license. Another thing to be considered is that according to HItt et al (1997), the role of home partners and contractual agreement are important because contractual agreements facilitates the process of learning over situation from local partners. The local partners in a foreign market are the ones who know better about their home market.

Therefore, it should resort to equity partnership or even establishing wholly-owned subsidiaries instead of just exporting and contractual agreements, if a firm develops firm-specific advantages, such as product innovations or high-quality brands (Fein and Anderson 1997).

In contrast to the previous analysis of high technology industries, in high-growth industries SMEs will perceive more offered opportunity to develop and expand the business. Choosing one entry over another will be perceived as a trade-off, since any choice will lead to good result if the firm can use its opportunity well. For example, in order to reduce the risk associated with fast-growing industry, SMEs can start by exporting and creating non-equity partnerships. Another beneficial strategy involves making equity joint venture with other SMEs or even setting up subsidiaries of the firm's own, since those strategies can exploit firm competitive advantage and ability to compete. A resources-based view suggests that the competitive advantage can be sustained if the firm has the ability to compete. Thus success is more likely in a fast-growing industry.

Thus, the following hypothesis is offered:

H2. The greater the growth within the industry, the greater the likelihood SMEs will select equity entry mode.

IV. Capital Intensity and SME's Entry Mode Choice

The automobile industry, refinery industry and chemical industry oil are all typically capital-intensive industries, requiring large capital investment both to start up and to run the business. The proportion of capital involved in the capital-intensive industries is much higher than the proportion of labor. This is why the industrial structure and types of industries need high-value in capital assets investments. Generally, the capital-intensive industries generate a high level of profit. The large amount of capital invested in these industries produce a high rate of return which in turn leads to more capital investment. Given that efficiency is typically emphasized as a key success factor in capital-intensive industries, competitive actions that reflect a focus on efficiency are likely to be associated with better firm performance in such industries (Hambrick & Lei, 1985). However, a firm in a capital-intensive industry is basically committed to a course of action, as capital intensity often creates inflexibility; new products or markets cannot be accommodated as flexibility might prove costly (Hambrick & Lei, 1985).

Capital-intensive industries are associated with high level of fixed cost. It causes a higher degree of risk. If the sales volume declines, as the fixed cost part cannot be removed or reduced, profits earned by the industry will experience a dramatic decrease. If there is a decline in market demand, then the capital-intensive industries will not experience from more loss compared to the labor-intensive industries.

According to Porter (1985) the firm must produce near capacity to attain the lowest unit costs when total costs are mostly fixed costs. Since the firm must sell this large quantity of product in the market, high levels of production lead to a fight for market share and result in increased rivalry. In addition to a large number of required financial resource, that increasing competition resulting the number of entrant to any capital-intensive industry is relatively less than any labor-intensive industry. Therefore the high fixed costs result in an economy of scale effect that increases competition.

Guarantees high level of productivity is the advantage of capital-intensive industries (Sjoholm, 1999). This could be possible since the usage of advanced technology raises the productivity of labor resulting in a greater output and the capital investments are used to equip the industry with essential tools and high tech machinery.

In a capital-intensive industry, high asset turnover can be achieved if the firm has the capability to do so. Asset turnover measures the capability of firms in an industry in order to use the asset for generating high sales (Seling & Stickney, 1989). In industries with high asset turnover, a certain amount of the asset invested could generate a high volume of sales. Evidently, firms operating in industries with high asset turnover are more likely to internalize their operations overseas (Erramilli & Rao, 1993). It is due to the asset invested for requirement in these industries will worth for targeted sales level. However, in these cases, the assumption is firms have less difficulty putting up the needed capital.

To sum up the studies discussed above, it is expected that foreign firms in industries of high asset turnover are more likely to adopt equity entry modes. However, this expectation is more appropriate for MNCs. On the other hand, if a firm has limited capacity, this firm cannot be good at all activities required in the market entry and market penetration process (Miles & Snow 1992), because the control cost and market transaction cost will be high in a capital-intensive industry.

Moreover, the limited capacity of SMEs means that for SMEs, "resource dependency rather than resource sufficiency often the norm (Calof, 1993) which requiring them to seek out cooperative linkage with firm possessing the requisite resources" (Dickson et. Al, 2006) (p.490). It is beneficial for SME to get the resource from the firm that already been settle in this particular type industries. Consequently, firm should joint with another expert firm to develop its own knowledge and ability with low commitment resource such as a contract. Thus, based on the theory it is more beneficial for SME to have non-equity entry mode such as alliance and license with the larger firm.

H3. The more capital-intensive the industry, the greater the likelihood SMEs will select non-equity entry mode.

VI. Concentration Level and SME's Entry Mode Choice

Clarke and Davies (1982) state in their study that concentration level is one of the most common measurements of competition in market structure and industry. It is important to consider these variables in examining a firm's entry mode choice, especially for SMEs looking to enter a new industry. According to Demsetz et. al. (1973) the term of industry concentration refers to the number of major competitors in a given industry. Oil refiners and automobile makers are some examples of concentrated industries.

The degree of industry concentration, which is an indicator of the level of competition in an industry, has been extensively used as a key contingency variable in prior empirical studies (Hambrick & Lei, 1985). High levels of competitive interdependence are implied by high concentration, which in turn serves to limit the range of competitive actions (Bain & Qualls, 1987).

In highly concentrated industries, existing firms known as incumbent firms earn lower return because they deal with less risk and less innovation (Porter, 1980). In entering a new market, new firms need to deal with these incumbents. Whenever an entered industry is highly concentrated, incumbents may join and retaliate against the entrant. Instead of fighting against existing incumbents, firms might reduce retaliation by sharing directly the resources and capacity with the incumbent (Brouther & Hennart, 2007). This interpretation is supported by Styles and Hersch (2005), who state that high costs, high risks, inflexibility, and the lack of resources in international markets force firms to work together in order to share assets, costs, and risks. High concentrated industries also need high control and market transaction costs. Thus, based on the combination of transaction cost theory and resource-based view, a preference for lower control entry mode emerges for SME entrance into this type of industry.

The resource-based view offers two basic assumptions: resource heterogeneity and resource immobility (Mata et. al, 1995). Resource heterogeneity describes a situation in which resources and capabilities are different from firm to firm. Resource immobility suggests that the differences may be long-lasting. If heterogeneity exists (that is, resources possessed by firms are not also possessed by several of its competitors), this resource will contribute to competitive advantage.

After gaining the competitive advantage, firms sustain competitive advantage thanks to resource immobility. Competitors would face great cost and difficulty in acquiring, developing, and exploiting a resource that a firm already possessing that resource does not incur. An industry with a high concentration level is characterized by greater resource heterogeneity. To reach homogeneity, or at least the same level achievement with the existing incumbents, a new entry into the market will need a lot of investment and funding.

The resource-based view suggests a solution: non-commitment partnerships "that help firms to pool different resources or distinctive capabilities from partners in different countries" (Li and Qian, 2008) (p.198). Such sharing of different resources or distinctive capabilities enhances the competitive advantages of the group. This is a smart strategy in a high concentration level industry.

As mentioned previously, larger firms have a greater variety of options than the small firms in terms of resources, capabilities and power. SME has limited resources that can make building the competitive advantage in high industry concentration more difficult. The SMEs "are too constrained by personal and institutional factors" (Sawers et. Al, 2008, p.172) and must develop its own distinctive competencies to enable it to fight against large firms (Etemad, 2000). Funding is one of the barriers that SME face. Moreover, the incumbents who have higher market shares have scale and scope advantages in controlling competition and profit (Yin & Shanley, 2008). They force a new entrant to engage in at least the same high level of activities such as advertising. This will make successful market entry difficult for smaller firms using a high control and resource commitment entry mode.

Therefore, based on the resource-based theory, instead of trying too hard in high equity investment, firms would benefit from pursuing alliance and license in this term. It can be advantageous to develop an experiential knowledge to engage in higher commitment and control equity entry mode strategy. Hitt et.al (1991) argue that actions to gain resources enable firms to learn valuable and new capabilities. They also show that strategic alliances may be an attractive alternative for gaining complementary assets. It is because the investment or long-term commitment is less than that needed in acquisitions. Lockett and Thompson (2001) provide evidence from the literature in economics scope that complements and supports this aspect of the RBV.

Hence, the last hypothesis can be formulated:

H4. The higher the industry concentration level, the greater the likelihood SMEs will choose non-equity entry mode decision.

V. CONCLUSION

This last chapter contains the summary of research results and the answers to the problem statement from the first chapter. Subsequently, the chapter will address the research's theoretical contribution and managerial implications. Finally, the last section will offer the limitations of these interpretations, as well as future research suggestions.

V.1 Theoretical Contribution

Looking at the findings regarding the influence of industry characteristics on entry mode decisions, this paper finds the following results. Industry characteristics include technology, growth, capital intensity, and industry concentration level, all important determinants of firm entry mode strategy for both MNCs and SMEs. However, the empirical findings regarding the relationship between these industry characteristics and entry mode decision is mixed. There is a lack of convincing and profound arguments about this relationship in existing literatures, a gap which this paper seeks to fill.

MNCs with sufficient financial and resource capabilities, entering an industry characterized by high technological uncertainty and asset specificity, will likely change their preference towards high commitment of resources and equity entry modes. These companies possess innovation advantage due their superior capabilities and resources. On the other hand, in high technology industries non-equity entry modes provide the choice for SMEs to manage optimally the high environmental velocity.

In contrast with the influence of technology to entry mode choice, industry growth affects the decision of the firm differently. Firms with excess resources like MNEs may still prefer high control entry modes to maintain full and unified control of the firm (Yin & Shanley, 2008). Even though the risks associated with fast-growing industries force SMEs to cooperate with larger firms to enjoy the resource advantages of the larger firm, SMEs' opportunity to develop their own competitive advantage are fully available through optimization of resource commitment, thanks to the high return promised in this industry. Thus, the preference tends to be towards equity entry mode.

When an industry is capital-intensive, high costs make it difficult for SMEs to engage in high-control and high-resource-commitment entry. A high level of productivity can only be produced by the firm that has high capabilities due to economies of scale. Thus, the lower-control and lower-resource-commitment entry mode is preferred. Lastly, in a highly concentrated market, competition is steep, which pressures SMEs to compete with existing firms that already own the market shares and its customer. Thus, it is better for SMEs to make a partnership through an entry mode that demands a lower commitment of resources, in order to compete with major competitors.

The most important finding, answering the problem statement from the introduction ("What is the impact of industry characteristics on SMEs' entry mode choice between equity (JV and WOS) and non-equity (contractual agreements and exporting activities?"), is that industry characteristics have proven to be crucial in explaining entry mode decisions. This research has taken into account four industry-determining variables and concludes that most of these variables influence SMEs preference of the entry modes. Different characteristics lead to different ways that SMEs look to overcome a situation within the industry. While high-technology, more capital-intensive and higher-concentrated industries lead to a lower commitment of resource (non-equity) entry strategy, higher growth leads to higher-resource-commitment (equity) entry. However, this preference is related to the other important difference between SMEs and larger firms in entry mode decisions. While larger firms, concerned with sustaining and inventing new competitive advantages in the market, prefer to establish such entry modes as JV and WOS (which demand higher control and resource commitment), SMEs must deal with resources constraint and learn to see opportunities to develop their knowledge and to be competitive in the market.

V.2 Managerial implications

This research makes an important contribution to SMEs and also managers of larger enterprises as they decide how to enter the international market. When making entry mode decisions, managers must be aware of the industry characteristics regarding their external barrier and advantages. When managers understand the strengths and weaknesses of the firm in the context of the industry, they can use this understanding to develop a competitive strategy when entering the international market. Choosing the appropriate entry mode in relation to industry characteristics is the first step towards internationalization and has proven to be crucial for firms of all sizes.

V.3 Limitations and future research

This research also has some limitations. First, an industry characteristic is one of many variables that must be taken into account when selecting the appropriate entry mode. Besides looking at industry characteristic, a firm should also look at other external influencers, such as country and cultural factors. Internal factors, such as resources and experience, must also be taken into account. Second, this research only focuses on direct influences of industry characteristics. It is hoped that this research will give more insight for future research on any possible moderating effect. Third, this paper offers a literature study, but no actual empirical research has been done. Therefore, it is recommended that future researchers test the reliability of these proposed hypotheses. Finally, future researchers wanting to test the relationship of industry characteristics to other variables are advised to address all industry-determining variables. This will lead to consensus about the role of industry characteristics in different situations.

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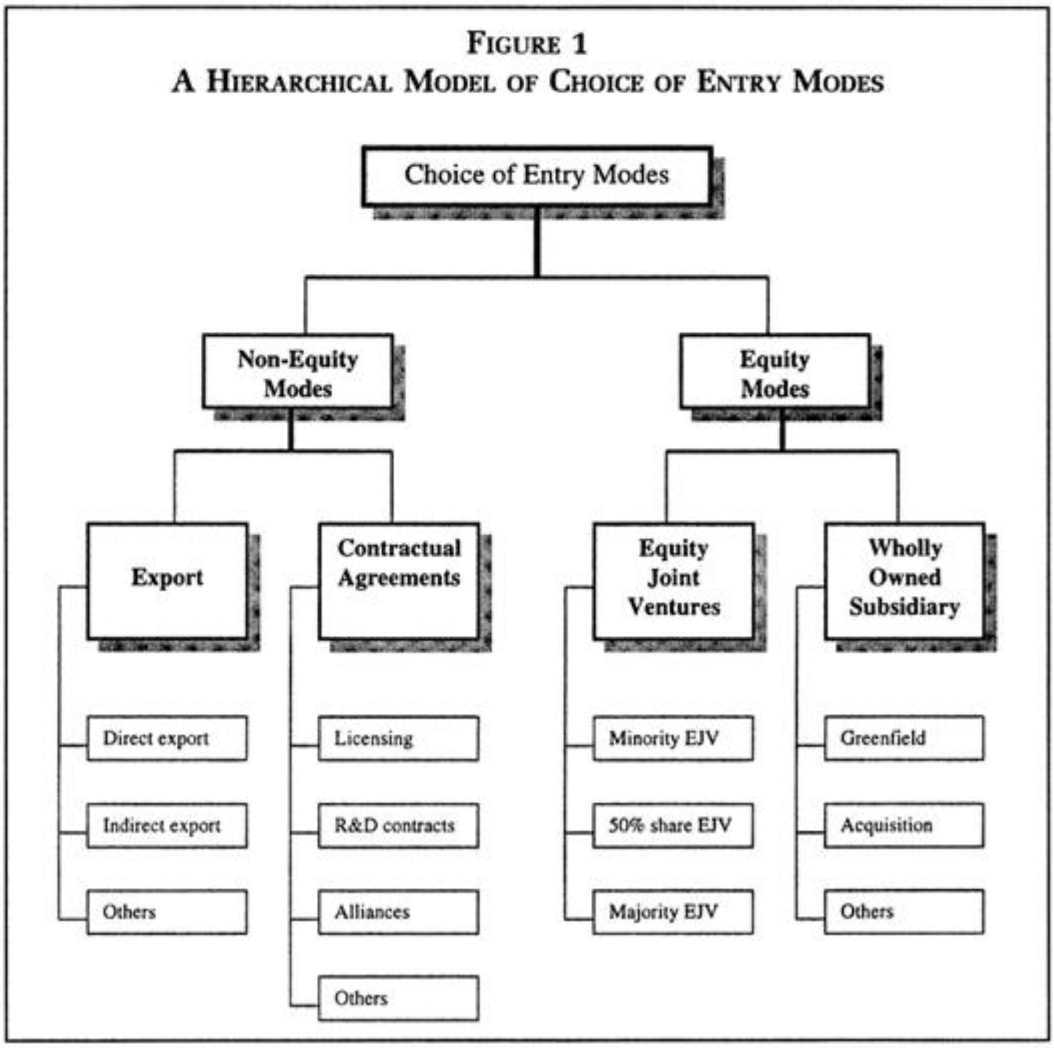
APPENDIX



Source: Pan and Tse (2000)