

# Chapter 4

## Foreign Market Entry Mode Choice: Internal and External Perspectives

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### **ABSTRACT**

*The purpose of this chapter is to empirically examine firms' internal and external factors that can affect their foreign market mode choice. The model is comprised of internal factors such as control, domestic business experience, and industry type; and external factors in terms of culture of foreign markets and intensity of competition. A mail-out survey to Australian firms involved in international business generated 315 useful responses. The hypotheses were tested using direct logistic regression analysis. Among the five variables, industry type, domestic business experience, and intensity of competition were found statistically significant. While industry type and domestic business experience encourage non-export mode, intensity of competition favours export mode. The major contributions of this study are the discovery of a variable, domestic business experience that is new in the literature; and the reinforcement of the importance of examining both internal and external factors when making a foreign market entry mode choice.*

### **INTRODUCTION**

When firms enter international markets, two groupings of foreign market entry modes can be identified; namely, exporting and non-exporting. With export entry modes, a firm's products are

manufactured in the home country or a third country, and then sent to the host country in a direct or indirect manner. Direct exports involve the firm performing various export tasks such as market research and logistics. Goods are then sold in overseas markets by agents or distributors.

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Contrary to direct export, indirect export mode involves a firm selling overseas using export houses or trading firms to carry out these tasks. Non-export mode includes a range of deployment other than exporting, such as licensing, franchising, strategic alliances, and foreign direct investment. This mode is different from the export mode in a sense that some forms of knowledge transfer and investments are involved.

Foreign market entry mode choice plays an important role in global business and is widely researched without reaching a consensus. The challenge continues as to rationalisation of foreign market entry mode choice. Various models have been used to explain the factors that affect foreign market entry mode choice. Dunning's eclectic paradigm (1977; 1988; 1995) provides an integrative framework of the determinants of foreign market entry modes. The paradigm suggests that three independent variables of eclectic paradigm; ownership, internalization, and location advantages (OLI) are the key determinants in explaining why multinational firms expand their global businesses. The eclectic paradigm can explain why multinational firms expand their global operations, but it falls short in providing insights with regard to exactly what factors are involved to achieve one or more of these three advantages (Dunning, 2001), or whether the paradigm equally applies to firms in the service industry and small to medium sized companies (Wong & Merrilees, 2009a).

Another model in the existing literature, mainly contributed by Scandinavian scholars, is the Uppsala model (Johanson & Vahlne, 1990; Johanson & Vahlne, 1977; 2006; Johanson & Wiedersheim-Paul, 1975). The model proposes internationalisation is a process in which global firms increase their levels of international involvement as they gather more information and gain more knowledge about the foreign markets. It is a combination of the internationalisation theory and internalisation theory (Fina & Rugman, 1996). However, this model has been critiqued as lacking

in generalisability and statistical representativeness, and as overlooking strategic factors.

To overcome the shortcoming of the above-mentioned two models, some researchers study the impact of strategic variables on the foreign market entry mode choice (Hill, Hwang, & Kim, 1990; Kim & Hwang, 1992; Wong & Merrilees, 2009a). This stream focuses upon the importance of strategic factors, rather than resource commitment or solely economic benefits, in foreign market entry mode choice.

While all three schools of thought have contributed literature on foreign market entry mode choice, research gaps still exist such as foreign cultural impacts and domestic business experience. This study is expected to provide empirical evidence to fill in these research gaps. The study's general question is, "What are the internal and external factors that affect foreign market entry mode choice?" The direction of this study is to examine firms' internal and external factors that can affect foreign market entry choice by: (1) critically reviewing the literature of foreign market entry choice, (2) identifying research gaps in the existing literature, (3) developing hypotheses, and (4) conducting an empirical survey to test the hypotheses.

## **BACKGROUND**

Two major theoretical perspectives guide this study; resources and capabilities, and institutional perspectives. The resources and capabilities perspective emphasises the internal issues of the firms when making strategic decisions, while the institutional perspective stresses that firms' international marketing decisions depend on the elements of the external country environment such as culture (Wong & Merrilees, 2009a). These two theoretical perspectives have been used to understand the foreign market entry mode choice in the literature (Driscoll & Paliwoda, 1997; Dunning, 2001; Wong & Merrilees, 2009a). Literature

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