Foreign Market Entry Mode Research: A Review and Research Agenda

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Foreign Market Entry Mode Research: A Review and Research Agenda

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ABSTRACT
This article gives a retrospective look at the main determinants of foreign market entry modes and examines the variables and conditions used in empirical studies in this stream of research. We found that there is an "analytical context hazard" in past studies. The findings suggest: first, future research should focus on developing and extending theories with reference to strategy dimension and market/industry environment; second, the interrelationship between the main entry mode determinants should be figured out; third, attention has to be paid to the entry modes of firms from non-developed economies in research.

KEYWORDS
Determinants; foreign entry mode decision; literature review; sample contexts

I. Introduction
The choice of a mode to enter a foreign market is one of the most critical decisions in a firm’s internationalization strategy (Agarwal and Ramaswami 1992; Brorthers 2013). Foreign entry mode decision refers to the way that a firm wants to carry out its business activities and the degree of engagement in a foreign market, either by exporting, joint ventures, or establishing its own subsidiaries. Research on this strategic decision has attracted considerable interest, and numerous scholarly studies have been conducted since Hymer’s (1960) work. This research field seems to have been quite developed and some scholars have recently begun to question whether entry mode studies are really needed (e.g., Shaver 2013).

In this context, a review of entry mode research is quite necessary to create awareness among scholars to give them a clear idea of what has been done so far in this research field. Second, a review helps to figure out the issues unraveled in prior studies to highlight what needs to be done in the future. This is important for two aspects: (1) many prior reviews have resumed different determining aspects in entry mode decision (e.g., Harzing 2003; Morschett, Schramm-Klein, and Swoboda 2010; Tihanyi, Griffith, and Russell 2005), but their relationships are still not clear; and (2) scant attention has
been paid to the sample selection, despite the fact that the sample is critical to the empirical analysis and results. The use of one or another analytical context may lead to quite different conclusions (Meyer 2015).

We aim to provide additional insights to the previously mentioned research gaps and to try to find out the unraveled issues in this research field. We provide a holistic picture which categorizes the potential determinants in the entry mode prediction and describes their effects and relationships. Second, we look into the context that each empirical study has conducted in this review, which reveals not only what has been found, but also how it has been found.

Our review contributes to the existing literature on entry mode in three ways. First, in line with the arguments of some recent works (e.g., Brouthers 2013; Martin 2013), we refine the knowledge on its determinants into different, but connected, dimensions which may be helpful to understand the potential interactions between them. Second, through this review, we identified several issues for which efforts are still needed, and propose a map for future research. Moreover, we provide reflections on several aspects of foreign entry mode research which are helpful in extending the knowledge on this strategic decision with a future research agenda.

This article is structured as follows. First, we introduce the research background. Then, we explain how we carried out our review and the method followed. In the third and fourth parts, we demonstrate the review results and meditate upon some issues that emerged from the results. Finally, we reach a conclusion and discuss the implications for future research and the limitations of this study.

II. Research domain and background

Firms need to choose an entry mode when they decide to explore an overseas market. Scholars define the foreign entry mode as a structural agreement that allows a firm to carry out its business activities in a foreign market with its resources and market strategy (Root 1987; Sharma and Erramilli 2004). Research on this strategic decision can be traced back to the 1970s and has been the third most studied area in international management (Canabal and White 2008; Werner 2002).

Entry mode, as a research domain, is important for several reasons. First, the decision itself is complex and requires considerations of various aspects (Musso and Francioni 2014). Both external (host/home environments) and internal factors (within the firm) can affect investors’ choices. Second, the decision has important consequences. Scholars have argued that it is closely associated with the investment’s success (e.g., Brouthers 2002, 2013; Hill, Hwang, and Kim 1990). An appropriate entry mode not only leads to higher performance of the subsidiaries, but also to the accomplishment of the parent firm’s objective. The influence on the firm’s performance is long-term. A
firm’s overseas entries usually involve great resource commitments. The initial choice of a particular mode is difficult to change without considerable loss of time and money (Root 1987). Third, foreign investors’ entry mode also has an impact on the competitive structure of the local industry. Many governments are not only interested in attracting foreign direct investment. It should be known that foreign investments can have both benefits and threats to the local environment.

In the last 20 years, there has been a substantial increase in the number of studies on the entry mode decision. Several authors have tried to review this research field and resume prior contributions. Early review works can be traced back to Sarkar and Cavusgil (1996) and Anderson’s (1997) studies. Later, scholars such as Harzing (2003), Zhao, Lou, and Suh (2004), Tihanyi, Griffith, and Russell (2005), and Morschett, Schramm-Klein, and Swoboda (2010) looked into some specific determining domains related to the choice. On the other hand, some authors looked into prior findings on the entry mode consequences and tried to link them to the study of decision making (e.g., Brouthers 2013; Martin 2013). Recently, some scholars have begun to extend the review to focus on small and medium-sized enterprises’ (SMEs) entry mode decisions (e.g., Bruneel and De Cock 2016; Laufs and Schwens 2014).

III. Method

There have been many articles published on foreign entry mode decision, which makes reviewing all of the empirical studies very difficult work. Owing to this, we focused on those published in 10 well-known international business journals (as proposed by Canabal and White 2008). We assume that studies published in those journals are likely to have a higher impact and their findings reflect the main contributions in this field.

The articles were identified through online databases such as Web of Knowledge, SCOPUS, and Google Scholar. These online sources were also used by other review works to identify target published articles (e.g., Pasani 2009). We searched through these databases using the keywords “entry mode” and checked the content of each article in the list. After identifying the target papers, a content analysis was used to analyze their findings. A similar method has been used in other review works, such as Mayrhofer (2004), Dikova and Brouthers (2016), and Paul, Parthasarathy, and Gupta (2017). This method allows better precision for the review due to its qualitative nature. For each article, we analyzed not only the determining factors suggested and the main findings, but also the theoretical bases and the sample that was tested. The research method and the review process are summarized in Figure 1.
IV. Results and findings

A total of 207 articles were identified in the target journals. Table 1 reports the publication spread among these journals. Of these, 174 articles are empirical studies, 148 looked into entry mode prediction (66.1%), 24 studied equity ownership level prediction (10.7%), 30 focused on entry mode consequence (13.4%), and 22 dealt with other issues related to foreign entry modes (9.8%)¹ (Figure 2). Publications in this research field increased significantly since the end of the last century and still maintain a high level (Figure 3).

Determinants of entry mode choice

A large number of determinants have been proposed and examined in these published studies. They are drawn from different aspects either related to the

<table>
<thead>
<tr>
<th>Table 1. Publications (1980–2013) in foreign entry mode research top outlets.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Journal name</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td><em>Journal of International Business Studies</em></td>
</tr>
<tr>
<td><em>International Business Review</em></td>
</tr>
<tr>
<td><em>Management International Review</em></td>
</tr>
<tr>
<td><em>Strategic Management Journal</em></td>
</tr>
<tr>
<td><em>Journal of Business Research</em></td>
</tr>
<tr>
<td><em>International Marketing Review</em></td>
</tr>
<tr>
<td><em>Journal of Management Studies</em></td>
</tr>
<tr>
<td><em>Journal of International Marketing</em></td>
</tr>
<tr>
<td><em>Thunderbird International Business Review</em></td>
</tr>
<tr>
<td><em>Multinational Business Review</em></td>
</tr>
</tbody>
</table>

¹Some studies have more than one focus (e.g., Brouthers, Brouthers, and Werner 2003).

Figure 1. Review methodology.

Figure 2. Publication distribution in terms of research areas.
external environment or related to investors’ own characteristics. We categorize these determinants into four levels: the country level (including both host and home country), industry/market level, investment/business level, and firm level.

**Host country-level determinants**

Besides conditions related to the geographic characteristics and the political and macro-economic environments, scholars have also focused on the institutional environment at the host country level (Table 2). These factors are mainly drawn from institutional arguments, real options theory, and transaction-cost theory (TCT). Empirical evidence shows that these country-level factors affect not only multinationals’ (MNEs) choices between different hierarchical modes (i.e., the equity entry modes) or contractual ones (i.e., the non-equity modes), but also the equity ownership level of their subsidiaries.

**Industry/market-level determinants**

Factors at the industry/market level tested in the studies mainly center on conditions such as market size (e.g., Dunning, Pak, and Beldona 2007; Morschett, Schramm-Klein, and Swoboda 2008), growth potential (e.g., Brouthers, Brouthers, and Werner 1999; Li and Li 2010), demand fluctuation (Kim and Hwang 1992; Li and Li 2010), industry advertising or R&D intensity (Demirbag, McGuinness, and Altay 2010; Kogut and Singh 1988; Shieh and Wu 2012), and degree of competition (e.g., Somlev and Hoshino 2005; Taylor, Zou, and Osland 2000). A wide range of theories and frameworks have been used to predict their potential effects on foreign investors’ entry mode choices. However, unlike the country-level determinants, it appears that there is consensus among scholars on the effects of market- and industry-related factors on MNEs’ entry mode choice. Also, there is no solid theoretical reasoning to explain the potential influences of these conditions.

These factors can be categorized into groups focused on market attractiveness, entry barriers, exit barriers, and specificity of required assets (Table 3). In general, prior empirical evidence shows the duality in the potential influence of the market- or industry-related conditions on MNEs’
# Table 2. Country level (host) determinants.

<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Outstanding studies</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Geographic characteristics</strong></td>
<td>Distance away from the home country</td>
<td>Boeh and Beamish (2012); Ragozzino (2009)</td>
<td>TCE</td>
</tr>
<tr>
<td>Political situation</td>
<td>Political stability</td>
<td>Chan and Makino (2007); Lu (2002)</td>
<td>institutional theory</td>
</tr>
<tr>
<td></td>
<td>Diplomatic relation</td>
<td>Pan and Tse (2000); Tse, Pan, and Au (1997)</td>
<td>Lacks clear theory</td>
</tr>
<tr>
<td>Economic (macro) situation</td>
<td>Economy stability (exchange rate, inflation)</td>
<td>Cuypers and Martin (2010); Chari and Chang (2009); Tseng and Lee (2010)</td>
<td>real options theory</td>
</tr>
<tr>
<td><strong>Institutional environment</strong></td>
<td>Regulatory restrictions or attractions;</td>
<td>Cui and Jiang (2012); Demirbag, McGuinness, and Altay (2010); Luo (2001); Tseng and Lee (2010)</td>
<td>institutional theory</td>
</tr>
<tr>
<td></td>
<td>government intervention</td>
<td>Brouthers (2002); Taylor, Zou, and Osland (2000)</td>
<td>bargaining power theory</td>
</tr>
<tr>
<td></td>
<td>Legal restriction</td>
<td>Erramilli, Agarwal, and Dev (2002); Luo (2001); Maekelburger, Schwens, and Kabst (2012)</td>
<td>institutional theory</td>
</tr>
<tr>
<td></td>
<td>Property protection</td>
<td></td>
<td>TCE</td>
</tr>
<tr>
<td></td>
<td>Laws enforcement &amp; supervision (corruption)</td>
<td>Chari and Chang (2009); Erramilli, Agarwal, and Dev (2002); Demirbag, McGuinness, and Altay (2010); Arora and Fosfuri (2000); Brouthers and Brouthers (2001); Demirbag, Property protection (2002)</td>
<td>TCE; Uppsala internationalization model; real options theory</td>
</tr>
<tr>
<td></td>
<td>Cultural distance or proximity (uncertainty avoidance, power distance, individualism, masculinity)</td>
<td>Erramilli, Agarwal, and Dev (2002); Hennart and Larimo (1998); Wang and Schaan (2008)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Communication barrier (linguistic distance)</td>
<td>López-Duarte and Vidal-Suárez (2010); Demirbag, McGuinness, and Altay (2010); Slangen (2011)</td>
<td>TCE; communication cost theory</td>
</tr>
</tbody>
</table>
entry mode choice. On the one hand, the attractiveness of the local market/industry lets foreign investors favor equity entry modes according to the Ownership, Location, and Internalization (OLI) framework (Dunning 1998), while its uncertainties increase investors’ propensity to share investment risks and reduce resource commitment in investments, which is similar to some country-level factors (e.g., the political and regulative environments). On the other hand, the asset specificity, which the industry or market requires entrants to commit to for competition, increases their tendency to choose higher-controlled entry modes.

**Investment or business-level determinants**

At the investment or business level, researchers have paid attention to the specificity of assets that they want to transfer in the investment; i.e., technologies and management skills (e.g., Maekelburger, Schwens, and Kabst 2012; Sanchez-Peinado, Pla-Barber, and Hébert 2007), and to investors’ motivations of investment (e.g., Gil et al. 2006; Sanchez-Peinado, Pla-Barber, and Hébert 2007) (Table 4). Other widely studied factors include the sector of the investment (e.g., Sanchez-Peinado and Pla-Barber 2006;
<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Outstanding studies</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Sector/activities</strong></td>
<td>Business relatedness/diversification</td>
<td>Chari and Chang (2009); Kogut and Singh (1988); Pehrsson (2008)</td>
<td>TCE</td>
</tr>
<tr>
<td></td>
<td>degree</td>
<td>Ekeledo and Sivakumar (2004); Kogut and Singh (1988);</td>
<td>TCE</td>
</tr>
<tr>
<td></td>
<td>Manufacturing/service</td>
<td>Sanchez-Peinado and Pla-Barber (2006); Sanchez-Peinado, Pla-Barber, and Hébert (2007)</td>
<td></td>
</tr>
<tr>
<td><strong>Transferred asset</strong></td>
<td>Specific know-how: technology (R&amp;D),</td>
<td>Brouthers (2002); Maekelburger, Schwens, and Kabst (2012);</td>
<td>TCE</td>
</tr>
<tr>
<td><strong>specificity</strong></td>
<td>marketing/advertising intensity</td>
<td>Puck, Holtbrügge, and Mohr (2009); Sanchez-Peinado, Pla-Barber, and Hébert (2007)</td>
<td></td>
</tr>
<tr>
<td><strong>Investment size</strong></td>
<td>Investment size, operation scale</td>
<td>Chari and Chang (2009); Chen and Hennart (2002); Demirbag, McGinness, and Altay (2010); Shieh and Wu (2012); Taylor, Zou, and Osland (2000); Tse, Pan, and Au (1997)</td>
<td>TCE; sunk cost; bargaining power theory</td>
</tr>
<tr>
<td><strong>Motivation</strong></td>
<td>Investment/project duration</td>
<td>Chen and Hennart (2002); Pan (1996); Shieh and Wu (2012)</td>
<td>TCE</td>
</tr>
<tr>
<td></td>
<td>Overseas operations autonomy;</td>
<td>Dikova and Wittleboestuijn (2007); Harzing (2002); Kim and Hwang (1992); Sanchez-Peinado, Pla-Barber, and Hébert (2007); Chen (2008); Dunning, Pak, and Beldona (2007); Pak (2002)</td>
<td>TCE</td>
</tr>
<tr>
<td></td>
<td>international strategy/global</td>
<td>Anand and Delios (2002); Aulakh and Kotabe (1997); Dunning, Pak, and Beldona (2007); Gil et al. (2006); Sanchez-Peinado, Pla-Barber, and Hébert (2007)</td>
<td>Knowledge-based perspective</td>
</tr>
<tr>
<td></td>
<td>synergies</td>
<td></td>
<td>Knowledge-based perspective; organizational capability perspective</td>
</tr>
<tr>
<td></td>
<td>Entry speed</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Specific motivations (seeking market,</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>natural resources, strategic assets/knowledge; following clients; assets exploitation/exploration)</td>
<td></td>
<td></td>
</tr>
<tr>
<td><strong>Location</strong></td>
<td>Location</td>
<td>Brouthers, Brouthers, and Werner (1999); Demirbag, McGinness, and Altay (2010); Kaynak, Demirbag, and Tatoglu (2007); Luo (2001); Pan and Tse (2000); Tse, Pan, and Au (1997);</td>
<td>OLI framework</td>
</tr>
</tbody>
</table>
Sanchez-Peinado, Pla-Barber, and Hébert (2007), business relatedness (e.g., Chari and Chang 2009; Pehrsson 2008), and investment size (e.g., Chen and Hennart 2002; Demirbag, McGuinness, and Altay 2010). Some authors also looked into the location where investors carry out the business (e.g., Brouthers, Brouthers, and Werner 1999; Kaynak, Demirbag, and Tatoglu 2007), but the relationship between this and the firms’ entry mode choice is, in essence, attributed to other conditions related to the location. Generally, except for some disputes on the impacts of country-specific motivations, research on determining factors at the investment or business level shows quite consistent arguments and empirical results. TCT and other transaction-cost-related approaches (e.g., bargaining power theory, internalization theory) dominate in these studies.

**Firm-level determinants**

Scholars also examined the link between the investing firms’ own characteristics and their entry mode choice (Table 5). They mainly focused on the experience (e.g., Puck, Holtbrugge, and Mohr 2009; Slangen and Hennart 2008), resources (e.g., Morschett, Schramm-Klein, and Swoboda 2008; Quer, Claver, and Andreu 2007), and capabilities (e.g., Brown, Dev, and Zhou 2003; Tseng and Lee 2010) bases of the investor. A series of factors related to these three aspects has been suggested. These aspects seem to have no identical effects on an MNE’s entry mode choice. While many scholars argue that firms’ managerial capabilities can improve the efficiency of practice and knowledge transference in investments, which, according to TCT, reduces the necessity of adopting more control over the operations, the resources base of the investing firm seems to be related to the resources commitment in the investment. Similarly, in the studies focused on the market or industry level and investment or business-level conditions, the degree of asset specificity is tested again at the firm level. Scholars suggest that higher control is required when investing firms possess specific assets, which are costly to monitor because of potential opportunistic behaviors. Moreover, institutional theory, agency theory, and upper echelons theory have been used to explain the potential influences of a firm’s ownership structure and executives on the decision.

**Home country determinants**

Most of the entry mode studies focused on the host country environment and investment-related considerations. But empirical evidence shows that MNEs’ entry mode propensity seems to vary depending upon the countries of origin; i.e., the nationality of the investors (e.g., Pan and Tse 2000). Scholars suggested the influences of aspects pertaining to the home country regulative orientation and cultural characteristics (e.g., Cui and Jiang 2012; Hennart and Larimo 1998) (Table 6). Some authors also tried to study the impact of the home
<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Outstanding studies</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experience</td>
<td>Host country experience</td>
<td>Arora and Fosfuri (2000); Puck, Holtbrügge, and Mohr (2009); Slangen and Hennart (2008)</td>
<td>Uppsala framework; TCE</td>
</tr>
<tr>
<td></td>
<td>International experience (multinationality)</td>
<td>Baek (2003); Erramilli (1991); Maekelburger, Schwens, and Kabst (2012); Sanchez-Peinado, Pla-Barber, and Hébert (2007); Slangen and Hennart (2008)</td>
<td>TCE; organizational capability perspective</td>
</tr>
<tr>
<td>Capabilities</td>
<td>Differentiated product/service</td>
<td>Agarwal and Ramaswami (1992); Brouthers, Brouthers, and Werner (1999); Brown, Dev, and Zhou (2003); Erramilli, Agarwal, and Dev (2002); Pinho (2007); Tseng and Lee (2010)</td>
<td>TCE; organizational capability perspective</td>
</tr>
<tr>
<td></td>
<td>Absorptive/transference capability, innovation ability, market linking capability</td>
<td>Chen (2008); Delios and Beamish (1999); Lu (2002); Maekelburger, Schwens, and Kabst (2012)</td>
<td>TCE; organizational capability perspective</td>
</tr>
<tr>
<td>Asset specificity</td>
<td>Specific know-how, technology (R&amp;D)/marketing (advertising) intensity</td>
<td>Chen and Hennart (2002); Dikova and Witteloostuijn (2007); Lu (2002); Hennart (2009); Morschett, Schramm-Klein, and Swoboda (2008); Taylor, Zou, and Osland (2000)</td>
<td>TCE; organizational capability perspective</td>
</tr>
<tr>
<td>Resources</td>
<td>Investor size</td>
<td>Agarwal and Ramaswami (1992); Contractor and Kundu (1998); Ekeledo and Sivakumar (2004)</td>
<td>Barging power theory; resource-based view; organizational capability perspective</td>
</tr>
<tr>
<td></td>
<td>Investor profitability, financial funds</td>
<td>Demirbag, McGuinness, and Altay (2010); Kogut and Singh (1988); Quer, Claver, and Andreu (2007); Taylor, Zou, and Osland (2000)</td>
<td></td>
</tr>
<tr>
<td>Networks</td>
<td>Networks</td>
<td>Maekelburger, Schwens, and Kabst (2012)</td>
<td>TCE</td>
</tr>
<tr>
<td>Ownership structure (shareholders)</td>
<td>State ownership</td>
<td>Cui and Jiang (2012); Musteen, Datta, and Herrmann (2009); Pan (1996)</td>
<td>Institutional theory; agency theory</td>
</tr>
<tr>
<td></td>
<td>Institutional shareholders</td>
<td>Musteen, Datta, and Herrmann (2009)</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insider ownership</td>
<td>Baek (2003)</td>
<td></td>
</tr>
<tr>
<td>CEO characteristics</td>
<td>Compensation, position tenure, educational level, functional background, experience</td>
<td>Herrmann and Datta (2002); Herrmann and Datta (2006); Musteen, Datta, and Herrmann (2009)</td>
<td>Agency theory; upper echelons theory</td>
</tr>
</tbody>
</table>
country’s economic conditions (e.g., Pan 2002). However, they lack a clear theoretical reasoning to support some of the hypotheses.

Besides the concerns on the four levels’ conditions in foreign investments, some authors argued the potential isomorph in MNEs’ decision making (e.g., Chan and Makino 2007; Guillén 2003; Maekelburger, Schwens, and Kabst 2012). These studies showed MNEs’ mimetic behaviors in foreign investments. This perspective suggests an irrational potential in investors’ entry mode choices, which is very different from the other concerns. Scholars distinguished two isomorphs in decision making, which originated from investors’ past experience and the behaviors of other related firms engaged in the same business context (Table 7).

### Sample contexts

In the identified entry mode empirical studies, authors employed entries with different destinations (host country) or MNEs with different origins (home country) in their test sample. Trying to look into the sample characteristics, specifically the foreign entry contexts, we construct a four-quadrant chart according to the development level of the country\(^2\) (Figure 4).

### Table 6. Home country determinants.

<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Outstanding studies</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regulatory conditions</td>
<td>Regulatory restrictions</td>
<td>Cui and Jiang (2012)</td>
<td>Institutional theory</td>
</tr>
<tr>
<td>Cultural conditions</td>
<td>Risk orientation</td>
<td>Hennart and Larimo (1998); Pan (2002); Pan and Tse (2000); Tse, Pan and Au (1997)</td>
<td>Institutional theory</td>
</tr>
<tr>
<td></td>
<td>Power distance</td>
<td>Hennart and Larimo (1998); Pan and Tse (2000); Tse, Pan, and Au (1997)</td>
<td></td>
</tr>
<tr>
<td>Economic conditions</td>
<td>Exchange rate, lending rate, export rate</td>
<td>Pan (2002)</td>
<td></td>
</tr>
</tbody>
</table>

### Table 7. Isomorph in foreign entry mode decision.

<table>
<thead>
<tr>
<th>Category</th>
<th>Factors</th>
<th>Outstanding studies</th>
<th>Theory</th>
</tr>
</thead>
<tbody>
<tr>
<td>External legitimacy</td>
<td>Home country Other investors’ behaviors (country/industry level, same business group)</td>
<td>Chan and Makino (2007); Guillén (2003); Lu (2002)</td>
<td>Institutional theory; organization theory</td>
</tr>
<tr>
<td></td>
<td>Host country Other investors’ behaviors (country/industry level, same business group)</td>
<td>Maekelburger, Schwens, and Kabst (2012)</td>
<td></td>
</tr>
<tr>
<td>Internal legitimacy</td>
<td>Prior management practice (organizational inertia)</td>
<td>Chan and Makino (2007); Guillén (2003); Lu (2002); Puck, Holtbrügge, and Mohr (2009)</td>
<td>Institutional theory; organization theory</td>
</tr>
</tbody>
</table>

\(^2\)To categorize the development level of each country, we referred to the information provided by UNCTAD (2013).
Excluding articles which did not specify their sample contexts (we tagged them “worldwide” during the analysis), we found that 132 articles employed sample context focusing on developed countries, but only 34 focusing on non-developed countries. Among the articles which employed sample context focusing on developed countries, 126 of them tested entry modes of MNEs from developed countries entering other countries (quadrant 2 + 3) and six treated developed countries as investment destinations (quadrant 3 + 4). Specifically, there were 21 articles which focused MNEs from developed countries entering developed countries (quadrant 3), and 25 which focused MNEs from developed countries entering non-developed countries (quadrant 2). On the other hand, among the 34 which employed sample context focusing on non-developed countries, 22 treated these countries as investment destinations. There were six in which sample context was of MNEs from non-developed countries entering non-developed countries (quadrant 1), and the other six did not distinguish the host countries. No article was found that used samples based on the context of investments from non-developed economies into developed economies (quadrant 4).

V. Discussion and future research directions

*The strategies dimension in foreign entry mode choice*

An important but mysterious dimension in entry mode prediction is related to investors’ strategic considerations. Studies on this aspect date back to Kim and Hwang’s (1992) work, in which they suggest the potential effect of MNEs’ desired coordination degree across their global business units on their entry mode decision. Scholars such as Harzing (2002), Luo (2001), and Ripollés, Blesa, and Monferrer (2012) followed this claim and focused on MNEs’ international strategy or market orientation in the foreign investment (e.g., global vs. multidomestic). As in these works, authors such as Dikova and Witteloostuijn (2007) and Slangen and Hennart (2008) studied the degree of autonomy that the parent firm plans to grant its overseas operations or subsidiaries in the foreign investments.
Research on the general strategic considerations seems to provide quite convincing arguments and conclusive evidence. These studies were based on TCT and underlined the “control” (for management synergy) in the decision making. As has been argued in these studies, equity modes, a higher ownership level, and a greenfield investment can grant investors more control over their foreign business activities (e.g., Hill, Hwang, and Kim 1990). Apart from the global strategic considerations, scholars also looked into MNEs’ specific motivations for investing in the host countries and their potential effects on entry mode choices. Prior authors observed a significant tendency to appeal to equity entry modes rather than non-equity ones (e.g., Dunning, Pak, and Beldona 2007; Pak 2002), to acquisitions over greenfield investments (e.g., Anand and Delios 2002), and to joint ventures (JV) over wholly owned subsidiaries (WOS) (e.g., Chen 2008; Sanchez-Peinado, Pla-Barber, and Hébert 2007) for those firms who aim to acquire specific knowledge or strategic assets for enhancing their capabilities and global competitiveness through overseas investments.

Divergences appeared in the research focusing on other specific investment motivations, such as the client-following and market-seeking strategies. Erramilli and Rao (1990) and Sanchez-Peinado, Pla-Barber, and Hebert (2007) suggest that client-following firms are more likely to create WOSs, while no significant ownership difference was found by Gil et al. (2006). Aulakh and Kotabe’s (1997) work showed no significant differences in new venture mode choice for firms pursuing a market position strategy and firms pursuing other strategies. Sanchez-Peinado, Pla-Barber, and Hébert (2007) found knowledge-intensive service firms tend to prefer JV when their entry is motivated by market seeking. Gil et al. (2006) tested FDIs by Western European and U.S. firms in the emerging markets of Central and Eastern Europe (CEE) and found that these investors seem to prefer WOS than JV when they seek markets, while they prefer JV when seeking natural resources in CEE.

Another important point discussed in the literature is related to investors’ strategic considerations of the speed with which firms want to penetrate the host market. Chen (2008) found that MNEs prefer acquisitions to greenfield investments when they need a rapid entry; e.g., into a fast-growing, high-competition market. The opportunity cost of delaying entry into this kind of market is high. The acquisition modes provide investors with existing operations in the market, which speeds up their penetration. Moreover, Dunning, Pak, and Beldona (2007) and Pak (2002) showed that the preference difference is also shown in the choice between non-equity entry and equity modes under the same circumstances. They suggest that contractual modes, such as franchising, are a more feasible option than mergers and acquisitions (M&A) because it is sometimes difficult to come across local firms that are ready to sell their operations. The non-equity modes can allow foreign investors to obtain a sizable share of market in a short time.
In conclusion, the strategy dimension has a significant impact on MNEs’ foreign entry mode choice. We suggest that these effects can be categorized into three different concerns, which include control, capability, and speed under the observable determining factors (Figure 5). However, the review shows that the effect of this dimension is still far from being concluded. We argue for more efforts on the theoretical base of this dimension, especially in the exploration of MNEs’ specific investment motivations’ effects. The knowledge-based perspective (e.g., Dunning, Pak, and Beldona 2007; Madhok 1997) and the organizational capability perspective (OCP) (e.g., Sanchez-Peinado, Pla-Barber, and Herbert 2007) were employed to understand firms’ “value-creating behaviors” in these studies. However, the explanation of their potential connection to MNEs’ entry mode preference needs to be improved; otherwise, other theories may have to be consulted.

“Soft/hard” uncertainty and interactions between determinants

Paradoxes are shown in the empirical studies which focus on the cultural aspect, investment uncertainties, and investors’ experience. Studies looking into cultural characteristics in entry mode choice can be traced back to Kogut and Singh’s (1988) works. Trying to settle these disputes, several scholars looked into the measurement of this factor (e.g., Dow and Ferencikova 2010; Drogendijk and Slangen 2006). However, scholars may have to first re-think the nature of the effect of cultural differences, and what it can bring to the investments.

The cultural issue is actually related to the cognitive psychology, which affects the attention, language, perception, and way of thinking and evaluation of foreign investors and local constituents (Medin and Ross 1992; Scott 2013). The cognitive differences reduce the communication efficiency between the investor and the local constituents, and between the headquarters and the local management team (e.g., knowledge transference, operation monitoring, and practices enforcement) (Figure 6).
We argue that entry mode research should distinguish between the uncertainty originated by cognition, which is behavioral in nature, and the uncertainty originated by other institutional conditions. The behavior-related uncertainty, to some extent, can be controlled by the investor. Investors can take managerial measures (e.g., adopting a specific governance and monitoring structure) to reduce the uncertainty resulting from the cognitive asymmetry. In contrast to this “soft” (controllable) uncertainty, risks brought on by other institutional conditions, such as the regulative and nominative environments, as well as the political and macro-economic conditions of the host country, are “hard” in nature (irresistible). Foreign investors can hardly change the macro situation at the country level or intervene in governmental affairs.

These two types of uncertainty affect foreign investors’ entry strategies in very different ways. Facing behavioral hazards, investors may need more control over their overseas operations, which increases their tendency to internalize according to the TCT; in environments characterized by high “hard” uncertainty, investors may have to choose a flexible entry strategy, reducing the resource commitment and the potential sunk costs.

However, the cultural paradox is still far from being resolved when distinguishing the soft and hard uncertainties. Some scholars have suggested the potential nonlinear relationship between cultural distance and MNEs’ entry mode choice. Wang and Schaan (2008) proposed an inverted U-shaped curve of foreign investors’ tendency to prefer JV over WOS under the effect of cultural distance. Nevertheless, they failed to clearly explain why this entry mode tendency increases in the low cultural distance environment (part A in Figure 7), while it drops in the high cultural distance environment (part B in Figure 7).

Based on the argument on the differentiation of “soft” and “hard” uncertainties, we suggest a different inverted U-shaped relationship between cultural distance and MNEs’ entry mode choice. The cultural distance between the home and host environments may not only increase

Figure 6. Foreign governance mechanism and management quality.

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the potential behavioral uncertainty in investment, but is usually accompanied by “hard” uncertainties when the distance is large enough. Great differences in ideologies affect the attitude of the host society or government towards the foreign entrants and may, accordingly, cause institutional or regulative risks. In low cultural distance environments, the influence of “hard” uncertainty on investments is also low. Thus, when the cultural distance increases, foreign investors’ preference for higher control entry modes increases due to behavioral reasons (part A in Figure 8). In high cultural distance environments, when the cultural distance increases, the external risks challenge the ability of MNEs to control the uncertainty, which reduces investors’ tendency of resource commitment in the investments, according to the institutional theory or the real options theory (part B in Figure 8).

Besides the potential interactions between cultural distance and institutional conditions, there are also some other factors to examine. As discussed earlier, to reduce the behavioral uncertainties and the consequent extra costs
in management, foreign investors need more control over their overseas operations. However, they may not always have to internalize the activities to achieve this end. Those who have greater managerial capabilities may be able to deal with these uncertainties and control the negative consequences to their investments without adopting a specific governance structure. The experience of operating in international markets and knowledge about the host country can increase investors’ know-how in terms of overseas investments and the understanding of the host business environment, which, in turn, enhances their ability to control the uncertainties, especially the behavioral uncertainties, in the local context. Prior empirical evidence shows a positive relationship between foreign investors’ experience and the propensity of choosing lower control-level modes (e.g., Maekelburger, Schwens, and Kabst 2012). A similar, but U-shaped, relationship between MNEs’ international experience and their propensity for integrated entry modes has been found in the literature (Erramilli 1991).

In conclusion, paradoxes and controversies in the literature of foreign entry mode choice on the effects of cultural distance, investment uncertainties, and experience are related to the interactions and multidirectional effects of these factors (Figure 9). These discussions suggest that scholars pay attention to the potential interactions and mutual effects between the determining factors in entry mode research. We call for, on the one hand, empirical studies on what has been discussed in this article regarding the mutual and joint effects between cultural distance, investment uncertainties, and experience and, on the other hand, efforts on other potential interactions that may exist in the entry mode prediction. Study of this aspect will refine the understanding of this decision making and even the consequent influence on the investment performance.

Figure 9. The interactions between cultural distance, institutional uncertainties, and experience.
**The separation of external uncertainty**

Authors in the entry mode literature traditionally tend to distinguish the uncertainty dimension into internal uncertainties and external uncertainties, or like others, into endogenous and exogenous uncertainties in some recent works (e.g., Chari and Chang 2009; Li and Rugman 2007). They usually employed TCT when dealing with internal uncertainties and used institutional theory when looking into external uncertainties. However, we argue that scholars have to be careful when testing factors from the external environment, as the effect of “external” uncertainty can be dualistic.

As discussed in the cultural distance paradoxes, behavioral risks have a very different effect on MNEs’ entry mode tendency, as compared to other kinds of risks related to the political or regulative conditions, which can be brought on by both internal and external factors. Thus, we suggest going beyond the “physical” characteristics of the factors and separating factors related to the investment uncertainty on behavioral uncertainty and volatility uncertainty according to the difference of their effects. While behavioral uncertainty is related to the efficiency concern (transaction costs), volatility uncertainty leads to investment irreversibility.

It also should be noted that there exists a potential moderating effect in the dimension of external uncertainty, according to the findings of some studies such as Erramilli, Agarwal, and Dev (2002), Luo (2001), and Maekelburger, Schwens, and Kabst (2012). They showed that, in countries where the institutional environment provides a safeguard to investors’ properties firms, the propensity to adopt a governance structure with higher control decreases. A similar decision tendency is also shown in works by Demirbag, McGuinness, and Altay (2010) and Dikova and Witteloostuijn (2007). They found that the host country’s institutional advancement and corruption level determine the decisions of high-tech investors. This evidence suggests that law enforcement and governmental supervision in the host country influence foreign investors’ perceptions of potential behavioral risks in investments, which affect their strategic decisions.

In conclusion, the literature shows that there are two different types of risk in the uncertainty dimension in entry mode decision, which cannot be treated as internal and external uncertainties. Moreover, scholars have to pay attention to the moderating effects that exist in them (Figure 10).

**Mapping the entry mode determinants**

Our review shows that scholars have looked into conditions at different levels in foreign investments to understand MNEs’ entry mode decision. Also, not only have they focused on the strategic considerations that determine the entry mode choice, but they also took some non-strategic factors (e.g., the
organizational inertia and the potential agency problem between the executives and firm) into consideration. To improve the understanding of the decision making while figuring out potential interactions between different factors, we summarize and categorize the main entry mode determinants discussed in the prior studies. Our mapping proposes four dimensions of factors around three core concerns (i.e., the nature of the effects) in foreign entry mode decision (Figure 11).

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**Figure 10.** The dualistic effect of external uncertainty.

**Figure 11.** The mapping of foreign market entry mode determinants and their interrelationships.
Scholars traditionally view the differences among entry modes as changes of the control that firms want, the commitment that they are willing to make, and the risk that they take on (e.g., Erramilli and Rao 1990; Hill, Hwang, and Kim 1990). However, this view has limitations, which may help clarify the decision making. First, there is a co-relation between control, commitment, and risk in the decision; e.g., the degree of risk that investors are willing to take on may decide their desired control over their overseas business activities and resource commitment in investments. Second, it ignores other strategic concerns such as the entry speed (as discussed in the previous section).

We suggest three main concerns in entry mode choice: the investment efficiency concern, investment flexibility concern, and investment urgency concern. The suggested determining factors for foreign entry mode choice in the literature actually revolve around these three core concerns. They can be divided into four main dimensions according to the differences of their effects, which include the strategy dimension, economic dimension, uncertainty dimension, and resources and capabilities dimension. The strategy dimension and economic dimension focus on factors that are related to investors’ investment purposes and local market/industry structure. They play a leading role in investors’ decision making, as they describe what investors want and the immediate business context in which they identify opportunities to obtain what they want. Factors belonging to the strategy dimension come from the investment level, and those of the economic dimension are related to the characteristics of the local market/industry’s environment. These two dimensions together determine the resources/knowledge that investors plan to contribute and transfer, the synergy and speed, and the required costs for entry, monitoring, and exit. They affect all three core concerns in the entry mode choice.

The uncertainty dimension and the resources and capabilities dimension look into the external (not immediate business-related environment) and internal (within the investor) conditions. Factors for the uncertainty dimension usually come from the host country level, and they are closely associated with the investment efficiency and flexibility concerns. The behavioral uncertainty affects investment efficiency, while the volatility uncertainty is related to the flexibility concern. Additionally, these uncertainties are moderated by factors related to a firm’s own characteristics, such as the ownership structure, resource base, and managerial capabilities.

The mapping of entry mode determinants not only refines the understanding of their effects and interrelationships, but also puts forward the potential theoretical bases for their study. For factors related to the flexibility concern, institutional theory and real options theory may be the appropriate theoretical basis. The cost-related theories (e.g., TCT, internalization theory, and bargaining power theory) may help explain why firms prefer higher control and internalization degree from the perspective of investment efficiency and cost minimization.
Sample hazard

Although a wide range of countries have been approached in prior entry mode research, either as the home country or as the host country of the investments, our review shows that there is an imbalance of the investment contexts used as the analytical setting in the empirical studies. In most of the empirical works, hypotheses were tested using samples of MNEs from developed economies such as the United States, Japan, or those of Western Europe. Recently, some studies began to shed light on foreign investments from emerging economies; however, the analytical context of MNEs from non-developed economies investing in developed economies has rarely been explored.

International business literature has shown that the strategies and behaviors of MNEs from developing and transition economies seem to be different from those which come from mature markets (e.g., Cavusgil, Ghauri, and Agarwal 2002; Hoskisson et al. 2005). Similar findings were found in the study on the path and behaviors of internationalization and outward FDIs from different origins (e.g., Hobday 1995; Luo and Tung 2007). Some theories and frameworks which are effective in one context may have problems in explaining firms’ behaviors (e.g., Hoskisson et al. 2004; Wright et al. 2005). These findings implicate that sample context moderates study findings, which needs to be taken into consideration in research.

Some authors pointed out that MNEs from developing and transition economies do not possess significant advantages to compete in the global market, especially in markets which are more mature than their home contexts and characterized by high competition (e.g., Madhok and Keyhani 2012; Matthews 2002). Many of these “latecomers” explore overseas markets with a “resource leverage” strategy—they enhance their resources and capabilities base through foreign investments to compete in the home or other markets. There are significant differences in institutional environments, business practices, and market conditions between developed economies and transition economies (Lebedev et al. 2014). The unfamiliarity with the new “game rules” may influence their decision making. Moreover, investors from these countries usually come from a strong home-based institution environment. Scholars have shown a high affiliation to the home institution environment in the behaviors of MNEs from these economies.

In the last decade, FDIs from transition and developing countries, especially those “emerging economies,” have had a phenomenal increase, which was instrumental in changing the landscape of the world economy (UNCTAD 2013). The focus on the strategies and behaviors of investors from these countries not only has interest for those policy makers, but also suggests a great potential for future research.
In conclusion, the investment context gap in foreign entry mode research may offer new potential. We can admit that no more efforts are needed for the sample setting in research if all potential sample contexts have been tested. However, this gap has left many questions. We argue that attention should be given to the context of overseas investments from developing and transition economies in research, especially those entering into developed economies. The elimination of this research hazard will complete the understanding of the prediction of this strategic knowledge, and even increase scholars’ knowledge of how it associates with the performance of foreign investments.

VI. Conclusions

This article reviews studies on foreign market entry modes published in top journals on this topic. We tried to synthesize the findings of these works on the potential determinants of this strategic decision, and also looked into the analytical contexts of these works. This retrospective look shows that research on the prediction of foreign entry mode is still far from perfect. First, paradoxes are shown on the effects of several proposed determinants of this decision. The disputes on them need to be settled. Second, recent studies have begun to pay attention to the moderating effects when analyzing the effect of one determinant in the research of entry mode prediction. However, scholars should also be aware that the influences of some determinants are not isolated, and the interrelationships between them need to be explored. Third, the influences related to the strategy dimension and economic dimension in this choice need further development, as the theoretical base in many studies which tried to explain the influences of these two aspects does not appear to be solid enough. Fourth, we identified a potential sample hazard in prior entry mode studies. It is interesting to know whether the behaviors of MNEs from emerging economies are similar to those of firms from developed markets and whether new frameworks and theories are needed. We suggest research efforts be addressed toward these issues in the future.

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