Journal of Indonesian Economy and Business
Volume 25, Number 2, 2010, 155 – 169

GLOBAL DETERMINANTS OF ENTRY MODE CHOICE

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ABSTRACT

Since several decades, a lot of academic attention has been given to entry mode decisions of firms, and which factors, in which contexts, are important determinants to take into consideration. Especially interesting for researchers is what influences the choice for a certain entry mode. A general limitation of this research stream seems to be that the empirical testing is limited to firms of a particular part of the world. This paper has developed six propositions. These propositions all concern a certain variable which influences the entry mode choice. The variables have been justified in the transaction cost theory, the resource based. Following the theories, the relationship between asset specificity, R&D intensity, firm size and international experience is said to be positive with the entry mode choice, and cultural distance and country risk are negatively related. Most propositions have been confirmed. view and institutional theory. These variables are asset specificity, R&D intensity, firm size, cultural distance, country risk and international experience.

Keywords: *Entry mode theory, transaction cost theory, resource based view, institutional theory*

INTRODUCTION

During the last few decades, wide attention has been brought upon companies' entry mode choice, as well as the important factors and contexts that must be carefully considered related to those choices. In relation to this, extensive studies have been conducted concerning international corporations that enter the new market. Of particular interest to the researcher, is the choices made that influence a particular entry mode. The scope of the study is limited to the empiric testing of a number of corporations operating in some countries of the world. Although several studies have been conducted related to entry mode choice, however all conclusions are merely based on a specific country or a given set of countries.

The current paper commences by addressing the following research question:

"Can the literature on the factors of entry mode choice be universally applicable or does it depend on each country?"

This paper compares literature concerning *entry mode choice* and observes whether the determining factors of *entry mode choice* are used by corporations all over the world. Such reviews allow this research to determine whether these factors can be applied universally. Should this be true, therefore it would serve to complement the vacancy of research upon the issue, and therefore open up the opportunities of future research agendas. Because *entry mode choice* involves a broad spectrum, therefore in order to simplify matters, studies are limited to those companies that engage in joint venture or wholly owned

subsidiary entry modes. Joint venture is defined as "the general unification of assets and separation of organization by two or more companies who share ownership and control of the utilization and output of this asset" (Kogut and Singh, 1988). Meanwhile wholly owned subsidiaries refer to initial capital investment to new facilities (Kogut and Singh, 1988).

This paper only involves manufacturing companies, because the scope of the paper would be too broad should it have to include all service industries. To maintain the existing structure, focus would be directed to corporations in Asia, United States, and European Union. Although countries like Africa, South America, and Russia, is also included, however, prior investigations towards these countries led this research to the conclusion that research on those regions remain scarce. Therefore this paper only focuses on corporations located in Asia, United States, and European Union, firstly because the study concerning entry mode choice has been conducted in this area and second, because this area encompasses most parts of the world.

This paper explains the relationship between determining factors of *entry mode choice* based on three different and well known theories. These theories include *transaction cost theory*, *institutional theory*, and *resource based view theory.* Most literature concerning *entry mode choice* merely investigates relationships of *transaction cost* with variables (Brouthers, 2002). Determining factors influencing *entry mode choice* that become the focus of this study include those that have been extensively discussed in the literature. These include *asset specificity*, R&D *intensity*, *firm size*, *cultural distance*, *country risk* and *international experience*. Variables of firm size and international experience are considered, since they are frequently mentioned in the *resource based view theory*. Part 2 explains the theories and part 3 explores the facts concerning how these chosen determining factors are related to those theories. Propositions are then suggested, and finally part 5 and 6, include explanations focusing on study limitations as well as study conclusions of the main findings.

LITERATURE REVIEW

Theories related to *entry mode choices* have largely originated from the *transaction cost* perspective (Palenzuela and Bobillo, 1999). However, numerous scholars suggest the theory inadequate to analyze entry mode choices. Two additional perspectives are required, of which are also frequently presented in the literature, to provide a complete description concerning the different ways companies decide to enter foreign markets, referring to *resource based view* and *institutional theory* (Quer, *et al.* 2007). In light of the arguments above, the following part intends to explain all three theories.

1. Transaction Cost

When MNC's decide to enter a new market, they must make choices of whether to choose internalized transactions (vertical integration) or to be formed by autonomic contractors (market control). Choices of the organization form as an adjusted transaction, is marked by distinct transactional characteristics with dominance mechanisms that are in line with *transaction cost theory* or *internalization theory,* as known in the international business literature (Kim and Mahoney, 2001).

This emphasizes the importance of specific corporate advantages concerning knowledge of competitive advantage relatively enjoyed by MNC's towards the companies in the country of target (Hill, *et al.* 1990).

Transaction cost theory was introduced by Coase in the article *"The nature of the firm"* (1937) where he demonstrated that the market and hierarchy serve as alternative dominance structures. Choosing between dependency

towards the market and hierarchy, of which according to Coase, is mainly used to differentiate transaction costs. Transaction costs have been clearly elaborated by Williamson (1975), who relates it in his seminal book *"Markets and hierarchies"* concerning relative efficiency in alternative dominance structures, to have three relevant dimensions, namely *asset specificity*, *environmental uncertainty*, and *transaction frequency* (Geykens, *et al.* 2006).

Transaction cost theory initially assumed that market dominance is more efficient when compared to vertical investments related with the higher competitive advantage in the global market. When transactions are internalized, therefore they lack efficiency related to the lack of competitive pressure in addition to the large tendencies of MNC bureaucracy (Geykens, *et al.* 2006). Nevertheless, *asset specificity, environmental uncertainty* and *transaction frequency* increase transaction costs and make vertical integration much more efficient compared to market dominance. *Asset specificity* is expressed as the companies or products that specifically acquire knowledge related to the production and marketing of a product. When companies make use of external resources in numerous activities, therefore the company faces the risk of inefficiency, where the knowledge of the company's possessions may be used by other companies, or may potentially steal problems occurring as a result of opportunism. Uncertain comprehensive claims contracts need to be designed to manage such problems, where both parties who enter into the uncertain comprehensive claims contracts, agree upon the rights and obligations towards know-how transfer. Nevertheless, costs for describing, negotiation, monitoring, and strengthening the contract is not an easy task (Klein, *et al.* 1978).

Environmental uncertainty may also increase transaction costs. This may be described in three dimensions namely *volume uncertainty*, *technological uncertainty* and *behavioral uncertainty* (Geyskens, *et al.* 2006). *Volume uncertainty* refers to the difficulties in accurately estimating the required volume in an agreement between two parties (Walker and Weber, 1984). Buyers have the risk of not having adequate stock or excessive inventory when volume uncertainty is high. Distributors may also experience unprecedented production costs or excessive capacity. In this case, companies prefer hierarchical dominance because it harmonizes the variation of the production course to achieve efficiency. *Technological uncertainty* refers to the difficulties in accurately estimating the required technology regarding both parties (Walker and Weber, 1984). Unprecedented change on the standard and specifications of the components in developing the technology of the product or technology in general, may be the cause of heightened *technological uncertainty*. In such conditions, the company tends to rely on market dominance because it provides an opportunity for them to terminate relations and return to their partners who hold much more compatible technological capacities (Balakrishnan and Wernerfelt, 1986). This also prevents companies from a technological crunch that may potentially lead it to be unused (Heidi and John, 1990). The third form of *environmental uncertainty* is *behavioral uncertainty*, referring to the difficulties in evaluating the final position of the parties who have joined in the agreement as determined in the contract.

In cases of heightened uncertainty, companies prefer vertical integration because it enables greater superiority due to their larger capacity to conduct evaluation. *Transaction frequency* demonstrates the level of transaction taking place. Williamson (1985) argues that with high transaction *frequency* the company would prefer to use hierarchical dominance because additional expenditure costs are easily managed for repeated transactions. Nevertheless, *transaction frequency* has accepted lesser attention in the empiric

literature compared to *asset specificity* and *uncertainty* (Rindfleisch and Heide, 1997).

2. Resource Based View

Penrose (1959), of who may be viewed as the initiator of the *resource based view (RBV)*, defines companies as a collection of resources. These resources (asset and capacity) may be in form of tangible and intangible goods. Corporate capacity is defined as the superior capacity to organize and coordinate over its competitors. By applying these methods, the main competence of the company allows it to achieve success in the market. In other words, corporate resources enable it to achieve success against other companies (Silverman, 1999).

When companies are incapable of building the competence required, this forces them to seek competence from external companies. This expansion influences the company's growth strategy, particularly the *entry mode choice* of the company. Foreign markets may be used as a source in developing or obtaining new resources (Mutinelly and Picitello, 1998).

Entry mode choices may be viewed as a decision concerning capacity, namely the capacity adopted by the company to enter the foreign market supported by the resources they acquire. The choice of dominance related to the decision, is the gained advantage or value from utilizing its capacities. This contradicts with *transaction cost theory*, where *entry mode decisions* refer to dominant choices that rely on minimizing the costs for monitoring and transaction arrangements. Similar to *transaction cost theory*, *resource based view* suggests that ideal *entry modes* are wholly owned subsidiary when external uncertainty is very high (Tsang, 2000, Ekeledo and Sivakumar, 2004).

3. Institutional Theory

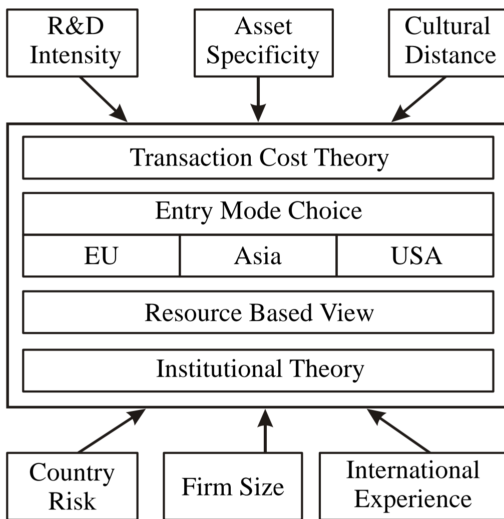
This theory explains that institutional environments of a country create matters of those allowed and those that are prohibited. These may concern both formal and informal contexts related to how a company participates with others in a particular economic market. By using this method, or in other words by establishing stable structures to allow convenient interactions with other companies and by reducing uncertainty, therefore the institution reduces transaction costs (North, 1990).

This concept has been applied in entry mode research for longer periods, however it has been developed earlier within a firm theoretical framework, and referred to as NIT (New Institutional Theory). In line with NIT, the institutional environment of the country consists of three different dimensions, namely regulation, cognitive and normative dimensions. The first dimension explains regulation structures that limit and regulate characteristics by supporting activities, monitoring and legal regulation. The cognitive dimension concerning the general framework from the meaning and main roles played by social mediating constructions, for example language. The normative dimension explains the goals, targets and appropriate methods to achieve them. An important term in this dimension is values and norms where values become the method preferred by a person in viewing the world, and norms as the ways to achieve those values (Scott, 1995). Although these are present in each country, however the content from this dimension is diverse. This influences the methods applied by a particular country and also has influence upon the decisions made by managers. The influence is very strong, whereby the company enters the environment of the host; therefore they are operated in the same way to arrange the provisions of what is acceptable by a particular institutional environments. When the company tries to avoid the incoming pressures from this institutional environment, they would eventually experience defeat, and create the choice of abandoning the market (Meyer, 2001).

Conceptual Framework

The focus of the paper may be described within a conceptual framework. Within the framework, of which is displayed in the following page, descriptions are made of the determining factors of *entry mode choice* explained from the perspectives of *transaction cost theory*, *resource based view*, and *institutional theory*. Apparently, the study will concentrate in Asia, European Union, and United States because of the limited literature available, and therefore a universal description is presented in this paper. In the section below, the chosen determining factors will be explained in relation to transaction cost theory, resource based view, and institutional theory.

Conceptual Framework:



Source: Author's

Figure 1: (Global) determining factors of *entry mode choice* in European Union, Asia and United States explained from *Transaction Cost Theory*, *Resource Based View* and *Institutional Theory*.

3. DETERMINING FACTORS INFLUENCING *ENTRY MODE CHOICE*

1. Asset Specificity

According to Williamson (1985), *asset specificity* constitutes the most important determining factor from the choices of market and hierarchy. This statement is also supported in the literature (ex: David and Han, 2004; Shelanski and Klein, 1995). *Asset specificity* refers to assets that experience value loss when used for alternative objectives (Williamson, 1985). This asset is adjusted with particular transactions and does not spread easily beyond the parties' involved (Geykens, *et al*. 2006). These assets may be used by the company of which specifically *knows-how*, for example having knowledge of technology and marketing ownership, or specific abilities concerning quality control (Rajan and Pangarkar, 2000). The main problem regarding *asset specificity* is that it would create the dangers related with opportunism from rival organizations that take advantage of dependence from other companies by neglecting, working alone, or spreading technology. Companies may protect themselves from opportunism by utilizing higher control regulation structures, for example whole ownership entry modes (Makino and Neupert, 2000; Hennart, 1991; Gatignon and Anderson, 1988). Companies with specific products but lack in assets are more likely to attend to efficient methods and draw lesser attention to opportunism. These companies, as demonstrated by *transaction cost theory*, would prefer a lesser integrated *entry mode*, for example *joint venture*. Therefore it may be concluded that companies with higher *asset specificity* will use higher control methods, for example *wholly owned subsidiaries*. Because this paper aims to understand whether the conclusions apply in general, therefore the following proposition is suggested:

Proposition 1: Companies with high asset specificity are universally more likely to prefer wholly owned subsidiaries.

2. R&D Intensity

One of the goals of R & D (Research & Development) is to create different products that create advantage at the monopoly level (Comanor, 1967). Companies with higher R&D intensity have this ability. The intensity of R&D home businesses, measure the competitive abilities of investors and market obstacles that they face in the foreign industries they enter (Chen and Hennart, 2002). Companies with those competitive abilities will prefer to use entry modes with wholly owned subsidiaries. On the other hand, according to Chen and Hennart (2002), high market obstacles will make those companies choose to make joint ventures as an *entry mode*.

Kindleberger (1984) suggested that companies with intensive R&D prefer to play alone because it gives the opportunity for them to maximize full utility of what they have given from this technology. *Transaction cost* will also be reduced when choosing wholly owned subsidiaries. Therefore, R&D intensity strongly reduces the value of joint venture *entry modes* (Gomes-Casseres, 1988). When the company is short of innovative technological thoughts, and enters a country with relatively high R&D, therefore joint ventures become the favorable *entry mode choice*, because it will provide the ability to strengthen the lack of technological support owned by the company in the country of target. To conclude, in line with the references above, therefore high R&D intensity will create an *entry mode* with higher control for example wholly owned subsidiaries. Because this paper intends to understand whether the conclusion applies in general, therefore the paper proposes the following:

Proposition 2: Companies with high R&D intensity universally prefer wholly owned subsidiaries as an entry mode.

3. Firm Size

Firm size may become an important determining factor for entry mode choice. As already interpreted in the resource based view, large firms are almost certain to have built vast resources and capacities which allow them to compete well against their competitors. Because of the extensive resources, therefore companies with large assets and capacities do not need to seek for it in the market. Measures provide the required resources to absorb the high production and marketing costs in foreign countries (Erramilli, *et al.* 1997). This also implies that larger firms are more able to manage higher capital investments. However in relation to technological and environmental change, a number of scholars, for example Naisbitt (1994) suggest that large companies are "*tomorrow's dinosaurs*". The reason is because this scholar refers to the facts that small and middle sized companies are more capable of responding to the actual ongoing competition. However, other authors, for example Harrison (1994) and Dunning (1995), state that the reason does not stand. They argue that large firms restructure and reposition themselves in traditional hierarchical relations with modern alliances. This gives the ability for the firm to build organization arrangements based on equity. When this paper take the *resource based view*, and the arguments of Harrison (1994) and Dunning (1995), therefore this paper may conclude that larger companies, on the assumption of *ceteris paribus*, have a greater possibility to choose wholly owned subsidiaries as an entry mode. This paper intends to understand whether this conclusion applies in general, therefore the proposition is as follows:

Proposition 3: Large firms universally prefer wholly owned subsidiaries as an entry mode.

4. Cultural Distance

The variable *cultural distance* is a concrete and effective tool to assess the complexities of culture that produce quantitative measures to be used in combination with other difficult data (Shenkar, 2001). In other words, *cultural distance* measures the methods of differentiating one culture with another. *Cultural distance* is frequently applied to measure external uncertainty that increases transaction costs. According to *transaction cost theory*, external uncertainty leads to numerous difficulties, and costs, that are estimated to emerge in the future. These difficulties are frequently caused by the constantly changing environments of the host country (Makino and Neupert, 2000). Differences between the environment of the host and origin have frequently been measured with inter-state cultural distance (Agarwal, 1994). Negative relationships are suggested between high cultural distances with wholly owned subsidiaries entry modes (Gatignon and Anderson, 1988).

The theoretical perspective of *resource based view* has also been applied to capture the culture distance variable. In other perspectives, these things are seen as intangible resources, and become an advantage in the competition when the company is able to bridge cultural distance (Mutinelly and Piscitello, 1998; Shenkar, 2001).

Concluding from the studies above, wholly owned subsidiaries are unlikely to be chosen when cultural distance is experienced. *Institutional theory* views *cultural distance* as a way to measure normative and institutional dimensions. When a company enters the host environment marked by the different normative systems, therefore social responsibilities must be displayed by adjusting to social and institutional expectations. 'Institutional change' would make it even more difficult for companies in entering the host environment of which is not culturally familiar. High unfamiliarity with the institutional and normative dimensions because of cultural distance between the origins and host nation that have low cultural distance results in higher development costs. This high cost leads to the choice of wholly owned subsidiaries, should the host nation be very culturally unfamiliar (Meyer, 2001; Yiu and Makino, 2002).

Although some scientists have suggested reverse relationships from what was mentioned above, namely high cultural distance resulting in joint venture entry modes, however the theoretical framework is largely inconsistent (Taylor, Zou and Osland, 2000). Quer, *et al.* (2007) has conducted studies to test the positive and negative relationships between high cultural distance and wholly owned subsidiaries. They empirically demonstrated significant relationships between larger cultural distances with the possibility of using higher control, for example wholly owned subsidiaries. This paper intends to understand whether the conclusion may apply in general, therefore the following proposition is suggested:

Proposition 4: Companies with high cultural distance universally prefer wholly owned subsidiaries as an entry mode.

5. Country Risk

Uncertainty concerning competitors, demands, costs and other market conditions, and other risks for instance the actual ability of the country in fulfilling its payments and political risks are some specific risks that are interrelated. This interrelation occurs because all risks create a risk dimension for the host nation. This variable has been found to be one of the most influential in the study of entry mode choice (Quer, *et al.* 2007). *Country risk* may be defined as "numerous types of external influences that influence the operation of a country's firms, whether related to the possibilities of acquisition or nationalization of investment capital made or with the kinds

of actions of other governments or changes in political or social situations that may have negative influences towards economic activity" (Quer, *et al*. 2007)

Other ways to capture the external uncertainty dimensions that create transaction cost is country risk. Foreign ownership may be associated with risks of uncertainty and politics; this will result in higher costs, and would influence every entry mode decision. The suggested relationship in accordance with transaction cost theory is one of the negative aspects between high country risks and high control, as it is for wholly owned subsidiaries (Gatignon and Anderson, 1988; Palenzulela and Bobillo, 1999).

According to *resource based view, entry mode* decisions depend in its ability to produce all resources required when entering a country with those high risks. When a country does not succeed in managing their own process, therefore assistance from local partners is required (Azofra and Martinez, 1999; Mutinelli and Piscitello 1998).

In *institutional theory*, *country risk* is captured under the dimension of regulations. When a company enters another country, they are not able to enter political environments. More or less of the foreign subsidiaries must adjust with the behaviors that are regulated and is reflected by *entry mode choice*. This depends on the environment's country risk of the host country, whether the company is able to manage the foreign market alone or whether it requires assistance from local partners. In other words high country risks make whole ownership entry modes become highly appealing for companies (Agarwal, 1994, Yiu and Makino, 2002).

Positive relationships between high country risks and wholly owned subsidiaries have been suggested by a number of scholars, although these present opposite relationships not suggested in theories that have equal depth with opposite relationships. Moreover, Quer, *et al.* (2007) has empirically demonstrated that there is no significance for the hypothesis that country risk largely reduces the use of joint ventures as an entry mode. In line with reason above, therefore high country risk produces an entry mode with higher control as it is for wholly owned subsidiaries. This paper intends to understand whether this conclusion applies in general, therefore this paper offer the following proposition:

Proposition 5: Companies in high country risks are universally more likely to prefer wholly owned subsidiaries as an entry mode.

6. International Experience

Experienced international companies are marked with the good understanding and realistic perceptions concerned with foreign subsidiaries, the risks involved and results expected from foreign operations (Aulakh and Kotabe, 1997). The variable international experience is captured within the *transaction cost theory* and *resource based view* theories. *Transaction cost* may be achieved because of external uncertainty, as mentioned above and due to internal uncertainty. This certainty emerges when there are difficulties to improve performance of the branches in the future. The inability to ensure performance creates transaction costs related to foreign entry mode decisions. And this results in the conclusion that higher international experience produces the establishment of wholly owned subsidiaries (Gatignon and Anderson, 1988, Gomes-Casseres, 1989). According to *resource based view*, *international experience* of the company may be viewed as intangible resources. And when a company gains more experience, therefore they are able to use the intangible resources as a competitive advantage. This argument is used in the *resource based view* in line with the *internationalization theory* suggested by Johanson and Vahlne (1977), and state that more experienced companies would choose higher control, so that the level

of international experience produces the use of wholly owned subsidiaries (Ekeledo and Sivakumar, 2004; Mutinelli and Piscitello, 1998). In accordance with the reasons above, the level of international experience will make the company be more likely to choose wholly owned subsidiaries over the joint venture. This paper intends to understand whether the conclusion may be applied in general, therefore the following proposition is suggested:

Proposition 6: Companies with higher international experience are universally more likely to prefer wholly owned subsidiaries as an entry mode.

DISCUSSION

To provide a guide to the propositions suggested in the earlier sections, now this paper will discuss the results of article selection, for example how the empiric facts support the theory, of which within it explains the nature of the relationship? This paper will discuss these matters by referring to the mentioned propositions.

Proposition 1: Companies with high asset specificity are universally more likely to prefer wholly owned subsidiaries.

Studies related to this proposition indicate inconclusive results. In the European Union, Brouthers (2002) and Brouthers, *et al*. (2003) provide empirical facts for positive correlations between high *asset specificity* with entry modes of wholly owned subsidiaries as an entry mode, and it is also found that this choice significantly improves their financial performance, control, firm size, international experience, and industrial sectors. On the other hand, Palenzuela and Bibillo (1999) found that the facts do not significantly indicate a positive relationship.

Companies from Asia demonstrate similar results. Rajan and Pangarkar (2000) and Lu (2002) confirmed positive relationships between high *asset specificity* and wholly owned subsidiaries; however Delios and Beamish (1999) are in opposition. In United States, such literature including Anderson and Coughlan (1987) as well as Gatignonda Anderson (1988) found significant relationships; meanwhile Aulakh and Kotabe (1997) failed to do so.

This paper takes all the results simultaneously, therefore not allowing making a generalization of the whole world concerning relationships between high *asset specificity* and the entry mode choice of wholly owned subsidiaries. To be more precise, in line with these results this paper cannot even state the propositions. Nevertheless, the primary reason behind all the facts is that several authors use the definition *asset specificity* and also measure it differently. A*sset specificity* as an example is defined as "R&D of a company and/or advertisement intensity, measured as R&D division and/or advertisement expenditures with total sales". Also measured is capital investments specialized for assets that consist of physical *asset specificity* (services), or technological *asset specificity*, or human *asset specificity* or total *asset specificity*.

When different definitions or measuring methods are specifically used in different ways, then it is not surprising if it creates contradictive or unconvincing results.

Proposition 2: Companies with high R&D intensity are universally more likely to prefer wholly owned subsidiary as an entry mode.

Literature from Asia supports the relationship of R&D intensity and equity entry mode. Delios and Henisz (2000), Padmanabhan and Cho (1996), Kogut and Ghang (1991), Erramilli, *et al.* (1997), all found positive correlations between high R&D intensity and entry mode choice of wholly owned subsidiaries. Chen, S-F, S. and J-F. Hennart

(2002), although not finding significant relationships, however obtained beta coefficients indicates the correct signals. Lu (2002), on the other hand did not find any positive correlations. Facts from European Union have also been obtained. One article was found (Gomes-Casseres, 1989) that supports the relationship of R&D intensity and entry modes of wholly owned subsidiaries. Gomes-Casseres (1989) suggested constant relationships for subsidiaries in the main business of MNE.

Studies from United States indicate strong relationships between R&D intensity with wholly owned subsidiaries entry modes. This relationship is confirmed by Gatignon and Anderson (1988), Makino and Newport (2000), Davidson and McFetridge (1985), Gatignon and Anderson (1989), Stopford and Wells (1972) and Kindleberger (1984). This paper has not found any studies that deny this relationship. Overall, this paper may conclude that so far, the literature agrees with the notion that R&D intensity prefers wholly owned subsidiaries as their entry mode, when compared to joint ventures.

Proposition 3: Large firms are universally more likely to prefer wholly owned subsidiaries as an entry mode.

Caves & Mechra (1986) found a high significant relationship between firm size and equity entry mode, for firms in European Union and Asia that enter the American manufacturing industry. Shrader (2001), Claver and Quer (2005) also discovered significance in this relationship. Aulakh and Kotabe (1997) did not find a positive correlation with the American firms, however indications of the opposite seem unconvincing, and examples of the studies consist of very large MNC's, so that there does not exist much variation between the firms, and most firms may possibly not be faced with problems of resource commitment. No support was found from Erramilli, *et al.* (1997) for Korean firms. However, it is very difficult to find articles that explicitly relate firm size and entry mode choice. Currently, the author uses measures of firms as control variables and not always reporting the results. Reasons to include firm size as a control variable is assumed that small firms do not acquire the resources required to invest capital in high equity entry modes (or to achieve full revenue from the existing firms). Nevertheless, should the author use firm size as a control variable, this implies that there must be potential significance that influences the results of empiric studies. With this reason, a person may also explicitly assume that firm size has a positive influence on higher equity entry mode.

Proposition 4: Firms with higher cultural distance are universally less likely to prefer wholly owned subsidiaries as an entry mode.

Studies conducted in European Union, as a home environment, seem to be more consistent using a relation-based theory, for example home environments through wholly owned subsidiaries when the environment possesses high cultural distance (Meyer, 2001; Mutinelli and Pscitello; Quer, *et al*. 2007; Kogut and Singh; Hennart and Larimo, 1998). Only studies conducted by Palenzuela and Bobillo (1999) did not find any significant relationship between high cultural distances with the choice of wholly owned subsidiaries.

Asia indicates much more consistent results. Yiu and Makino (2002), Makino and Neupert (2000), Hennart and Larimo (1998) and Arora and Fosfuri (2000) empirically proved a negative relationship between wholly owned subsidiaries with high cultural distance, however, Zhao and Zhu (1998), Rojan and Pangarkar (2000) as well as Padmanabhan and Cho (1996) did not find empirical support for this relationship.

Alternatively, American-based studies indicate consistent results. High cultural distance supports entry modes of wholly owned subsidiaries of which is empirically supported by Agarwal (1994), Chang and Rosenzweig (2001), Gatignon and Anderson (1988) as well as Makino and Neupert (2000). Although a number of researchers did not find evidence of a negative relationship between wholly owned subsidiaries with high cultural distance, however the relationship may be interpreted as one of the relationships that apply universally because most studies empirically understand this negative relationship.

Proposition 5: Firms with high country risk are universally less likely to prefer wholly owned subsidiaries as an entry mode.

Studies in European Union in its relationship between country risk and the possibilities to choose wholly owned subsidiaries all have significant empiric results for the negative relationship (Brouthers, 2002; Meyer, 2001; Mutinelli and Piscitello, 1998; Quer, *et al.* 2007; Palenzuela and Bobillo, 1999).

Asia also indicates results that empirically support this (Yiu and Makino, 2002; Rajan and Pangarkar, 2000; Arora and Fosfuri, 2000). This study only found one study based in the Unites States (Aulakh and Kotabe, 1997) that did not find empirical support of the negative relationship between wholly owned subsidiaries with high country risk. Agarwal (1994), Gatignon and Anderson (1988) and Schrader, *et al.* (2000) have found empirical support. Based on these results, it may be concluded that when a country is assumed to be of high risk, the possibilities to choose wholly owned subsidiaries by firms that want to enter high risk environments are minimum, so that it may be applied universally.

Proposition 6: Firms with higher international experience are universally more likely to prefer wholly owned subsidiary as an entry mode.

Positive relationships between international experiences of the firm with the wholly owned subsidiaries so far are not too convincing. Studies based in European Union did not find empirical support in three articles (Palenzuela and Bobillo, 1999; Kogut and Singh, 1988; Hennart and Larimo, 1998) and are only supported by one article (Mutinelli and Piscitello, 1998). For studies based in Asia, three articles empirically support that firms with broader international experience are more likely to choose entry modes of wholly owned subsidiaries (Yiu and Makino, 2002; Hennart, 1991; Arora and Fosfuri, 2000). Hennart and Larimo (1991), Rajan and Pangarkar (2000) as well as Padmanahabman and Cho (1996) did not find any empirical support. Zhao and Zhu (1998) found significant results, meanwhile for the opposite relationships, referring to more experienced firms; they are more likely to choose joint ventures over wholly owned subsidiaries. Studies based in United States indicate a much more consistent pattern. Only one article (Chang and Rosenzweig, 2001) did not serve as empirical support. Agarwal (1994), Gatignon and Anderson, (1988), Aulakh and Kotabe (1997), Ekeledo and Sivakumar (2004), Schrader, *et al.* (2000) as well as Gommes-Casseres (1989), all provide empirical facts that firms chose wholly owned subsidiaries because they have more international experience.

The inconsistent empirical facts make this paper conclude that positive relationships between international experiences with the possibilities to choose wholly owned subsidiaries cannot be applied universally.

LIMITATIONS

This paper attempts to provide facts of the determining factors that may be universally applied, to determine entry mode choice. Numerous limitations on the current study

must be addressed. First, in this paper, the chosen determining factors that influence the determining factors of entry mode choice. They include asset specifity, R&D intensity, firm size, cultural distance and country risk. The reasons why factors of choice are used are because they are presented well in the entry mode literature so that it may be assumed that these determining factors are most important related to entry mode choice. However, other determining factors for example advertisement intensity; conditions of demand and competition also influence entry mode choice. Therefore, it is important to understand that the chosen determining factors do not provide a comprehensive description concerning the factors that influence entry mode choice. Second, it must be noted that the current study only emphasizes on manufacturing industries. Therefore this paper cannot suggest that the results also apply for firms that run service industries. Additional studies are required to make conclusions that the investigated determining factors applied in manufacturing industries may also be applied to service industries. Third, in this paper the wholly owned subsidiary and joint venture have been chosen as the unit of analysis. Apart from entry mode choice, there are also other entry mode for example export and permits. For a complete analysis concerning entry mode choice, the other entry modes must also be considered. Fourth, literature must also be added concerning entry mode in all parts of the world, that represent all continents of the world so that studies may provide universal facts.

However, apart from the Western continents and Asia, literature concerning entry mode decisions in South America, Africa, or Russia is scarce, so that these countries from these continents are not included. If more studies were conducted in this world, therefore it would be possible to make a universal analysis. Finally, for the literature that becomes a basis, sometimes the definition or measures are different, whether used for wholly owned subsidiary or joint venture. Because it is difficult to include literature with the similar definitions for both these entry modes, therefore it was decided not to include these literatures. Although this paper cannot firmly confirm this, however this may lead to confusing results.

CONCLUSION

After reviewing the global *entry mode* more thoroughly and conducting empiric testing to support theoretical arguments therefore this paper able to draw a number of conclusions. In order to do that, first of all, it comes back to the research question: "Is it possible that the results of the literature concerning determining factors of entry mode choice are generally applied or does it depend on their country?" To answer this question, six propositions have been suggested in the paper. All propositions address particular variables that influence entry mode choice. The variables that have been determined by *transaction cost theory*, *resource based view* and *institutional theory*. These variables include *asset specificity*, R&D *intensity*, *firm size*, *cultural distance*, *country risk* and *international experience*. According to these theories, relations between *asset specificity*, R&D *intensity*, *firm size*, *cultural distance*, *country risk* and *international experience* is stated to be positive with *entry mode choice*, and *cultural distance* as well as *country risk* has a negative relationship. Most propositions have been confirmed. Based on the literature in all of European Union, Asia, and United States, that the direction of the answer is yes, although cannot be so sure. R&D intensity, *cultural distance* and *country risk* receives strong support. The determining factor of *asset specificity* gives inconsistent results, nevertheless, as mentioned, where this paper believe that these matters are directed to the fact that too much definitions and measures are used in the variable. Firm size is most likely to

influence *entry mode choice* and provides incentives to the firms that enter a country with wholly owned subsidiaries compared with joint venture. Moreover, when concluding the results, this study is certain that determining factors of entry mode choice are included in the theoretical framework based on transactional theory and confirmed with the *resource based view* as well as institutional perspectives of which may be applied universally. This paper is expected to provide a greater cohesiveness to the entry mode theory. This paper may also facilitate future studies and may even produce a much more comprehensive research analysis. Other factors from entry mode that may involve other entry modes as well as feedback from service industries may also be considered.

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