Influences of Firm Characteristics and the Host Country Environment on the Degree of Foreign Market Involvement

公司特征和东道国环境对国外市场介入程度的影响

기업특성과 호스트국가 환경이 해외시장 관여도에 미치는 영향에 관한 연구

Omar Maktoba[1)*], Sonny Nwankwo[2)]

Abstract

Against the backdrop of the increasing trend towards economic globalisation, many international firms are indicating that decisions on how to enter foreign markets remains one of the key strategic challenges confronting them. Despite the rich body of literature on the topic, the fact that these challenges have continued to dominate global marketing strategy discourses point to someevident lacunae. Accordingly, this paper considers the variables, categorised in terms of firm contexts (standardisation, market research, competition, structure, competitive advantage) and host country-contexts (economic development, cultural differences, regulation and political risk), which influence the degree of involvement of UK companies in overseas markets.

Following hypotheses were drawn from literature review:

- H1: The greater the level of competition, the higher the degree of involvement in the overseas market.
- H2: The more centralised the firm's organisation structure, the higher the degree of involvement in the overseas market.
- H3a: The adoption of a low cost-approach to competitive advantage will lead to a higher degree of involvement.
- H3b: The adoption of an innovation-approach to competitive advantage will lead to a higher degree of involvement.
- H3c: The adoption of a market research approach to competitive advantages will lead to a higher degree of involvement.
- H3d: The adoption of a breadth of strategic target-approach to competitive advantage will lead to a lower degree of involvement.
- H4: The higher the degree of standardisation of the international marketing mix the higher the degree of involvement.
- H5: The greater the degree of economic development in the host market, the higher the degree of involvement.
- H6: The greater the cultural differences between home and host countries, the lower the degree of involvement.
- H7: The greater the difference in regulations between the home country and the host country, the lower the degree of involvement.
- H8: The higher the political risk in the host country, the lower the degree of involvement.

A questionnaire instrument was constructed using, wherever possible, validated measures of the concepts to serve the aims of this study. Following two sets of mailings, 112 usable completed questionnaires were returned. Correlation analysis and multiple regression analysis were used to analyze data.

Statistically, the paper suggests that factors relating to the level of competition, competitive advantages and economic development are strong in influencing foreign market involvements. On the other hand, unexpectedly, cultural factors (especially individualism/collectivism and low and high power distance dimensions) proved to have weak moderating effects. The reason for this, in part, is due to the pervading forces of globalisation and the attendant effect on global marketing.

This paper has contributed to the general literature in a way that point to two mainimplications. First, with respect to research on national systems, the study may hold out some important lessons especially for developing nations. Most of these nations are known to be actively seeking to understand what it takes to attract foreign direct investment, expand domestic market and move their economies from the margin to the mainstream global economy. Second, it should be realised that competitive conditions remain in constant flux (even in mature industries and mature economies). This implies that a range of home country factors may be as important as host country factors in explaining firms' strategic moves and the degree of foreign market involvement.

Further research can consider the impact of the home country environment on foreign market involvement decisions. Such an investigation will potentially provide further perspectives not only on the influence of national origin but also how home country effects are confounded with industry effects.

Keywords: International business, Global marketing, Entry mode choices, Market research, Foreign market involvement.

摘要

针对日益增长的经济全球化趋势的大背景，许多国际公司表示，如何进入国外市场仍然是他们面临的最主要的战略挑战之一。尽管关于这一主题有丰富的文献，但这些挑战继续统治着全球营销战略的论述的事实指出了一些明显的缺陷。因此，

1)* Corresponding author. Edinburgh Napier University Napier University Business School Edinburgh EH14 1DJ. Tel. +44 131 455 4404; fax. +44 131 455 4540. *E-mail:* m.omar@napier.ac.uk

2) University of East London Business School, Docklands Campus, University Way London E16 2RD. *E-mail:* s.nwankwo@uel.ac.uk

本文认为以公司背景而言的变量（标准化，市场研究，竞争，结构，竞争优势）和以东道国背景而言的变量（经济发展，文化差异，制度和政治风险）会影响英国公司在海外市场的介入程度。

通过文献研究提出下列假说：

H1: 竞争水平越高，在海外市场的介入程度越高。

H2: 公司组织结构越集中，在海外市场的介入程度越高。

H3a: 通过低成本的竞争优势的做法将导致较高的介入程度。

H3b: 通过创新的竞争优势的做法将导致较高的介入程度。

H3c: 通过市场研究的竞争优势的做法将导致较高的介入程度。

H3d: 通过广泛的战略目标的竞争优势的做法将导致较低的介入程度。

H4: 国际营销组合的标准化越高，介入程度越高。

H5: 东道国市场的经济发展程度越高，介入程度越高。

H6: 母国和东道国之间的文化差异越大，介入程度越低。

H7: 母国和东道国之间的规章制度的差异越大，介入程度越低。

H8: 东道国政治风险越大，介入程度越低。

使用问卷调查，在可能的情况下，用概念的验证方法为本研究的目的服务。通过两套邮件，收回112份有效完整的问卷。运用相关分析和多元回归分析来分析数据。

据统计，本文发现有关竞争水平，竞争那个优势和经济发展的因素对国外市场介入有很强的影响。另一方面，出乎意料的是，文化因素（尤其是个人主义/集体主义和低和高的权利距离）被证明有弱的调节影响。这个原因部分是由于全球化普及的力量和随之而来的对全球市场营销的影响。

本文主要有两方面的启示。第一，关于国家制度的研究，本研究总结了一些重要的经验尤其是对发展中国家。大多数这些国家都知道，积极寻求理解需要采取哪些措施来吸引外国直接投资，扩大国内市场，并把他们的经济从边缘移至全球经济的主流。第二，应该意识到，竞争条件始终在不断变化（即使在成熟的产业和成熟的经济体）。这意味着一系列国内因素可能和东道国因素在解释公司的战略举措和外国市场的介入程度方面一样重要。

未来的研究可以考虑母国环境对国外市场介入决定的影响。这样的调查不仅能在国家原产地方面而且能在母国影响如何和工业影响混杂不清方面提供更多的观点。

关键词： 国际商务，全球营销，进入模式选择，市场研究，国外市场介入

Ⅰ. Introduction

Since the seminal paper by Levitt (1983), controversy surrounding converging homogenous markets and standardisation of marketing strategies continues. Whilstconsiderable progress has been made in terms of research on standardisation-adaptation and foreign market involvement strategies, researchers are continuing to generate rich insights into the factors that moderate the choice of foreign market entry modes (Rasheed, 2005; Townsend et al 2004) and the strategic capabilities that are likely to optimise a firm's performance through its choice of entry mode (Chen, Chen and Ku, 2004; Lou, Sivakumar and Liu, 2005). However, decisions over which entry mode to employ in accessing foreign markets remains problematic both for scholars and practitioners (Beim and Levesque, 2006; Herrmann and Datta, 2006; Vrontis and Kitchen, 2005).

In the context of the global economy, the continuing interest in the analysis of foreign market involvement strategies is largely driven by the need to determine which entry mode best aligns the entering firm's strengthsand weaknesses with the host market environment as well as with the firm's structural and strategic characteristics (Brown, Dev and Zhou, 2004 Pan and Tse, 2000). Notwithstanding whichever entry mode that is chosen, issues around resource commitments and control have been central to the strategic decision process (Hill, Kim and Hwang, 1990; Kang et al., 2000). The linkage between forms of entry mode on the one hand and resource commitment and level of control on the other is an area of established interest in international business research (Agarwal and Ramaswani, 1992, Kwon et al., 2004; Kim et al., 2008; Czinkota et al 2009). Thus, the extent to which the firm is seen to be involved in a foreign market is determined, for the purposes of this paper, by evidence of the commitment of resources and the degree of control implicit in the chosen entry strategy. Accordingly, this paper seeks to examine some of the critical determinant factors that might explain a firm's chosen level of involvement in a foreign market. It does this by examining the relationship between firm characteristics and host country environments in the degree to which they moderate foreign market involvement strategies.

The rest of the paper is set out in the following way: a review of the literature is next undertaken, leading to the hypotheses of the study. The research methodology is then outlined, followed by presentation of results, discussion and conclusions.

Ⅱ. Conceptual Background

International firms have applied a number of models for making entry mode decisions (Beim and Levesque, 2006; Pan and Tse, 2000; Taylor, Zou and Osland, 2001), each with different requirements in terms of resource commitment and degree of control (Young et al. 1989). Resource commitment is explained as assets that cannot be redeployed to alternative uses without loss of value (Bell, 1996; Kim and Hwang, 1992). These strategic resources may derive strength and explanation from managerial expertise, manufacturing know-how, finance, technology, marketing, human resources and research and development skills deployed in the production of goods or services. The degree of control is taken to mean the ability of the firm to have an influence on the system, methods, decisions, and the behaviour of other parties using power and authority (Pugh, Hickson and Turner, 1969). In the context of the international firm, this can manifest itself in the ability to change, for example, production and marketing decisions or the distribution systems of the foreign subsidiary (Hill, 2005).

Following the popular approach in the literature to use delicate balance between 'level of control'and 'resource commitment' as a canvass for depicting the 'degree of involvement', Erramilli and Rao (1990) offered an ordinal scale as a simple descriptor(see table 1). Wholly-owned subsidiaries are characterised as having the highest level of involvement whilst licensing/franchising arrangements are characterised as the lowest forms of involvement.

Table 1. Entry Mode in Relation to the Degree of Involvement

Foreign Market Entry mode	Resources required for Commitment	Market Specificity of commitmenmarket	Level of involvement
Wholly owned subsidiary	Very high	High	9 (Highest)
Wholly owned subsidiary	High	High	8
Wholly owned subsidiary	Moderate to high	High	7
50-50 joint venture	Moderate	High	6
Minority joint venture	Moderate	High	5
Export subsidiary	Moderate	Moderate	4
Direct to customer exports	Low to Moderate	Low	3
Agent/Distributor export	Low	Low	2
Licensing/Franchising	Very low	Very low	1 (Lowest)

Source: adapted from Erramilli and Rao (1990; pp. 139-140).

On a spectrum on which respectively locates highest and lowest degrees of involvement, Rugman et al (1989) explains the process a firm, producing standardised product and seeking to involve itself in a foreign market, may follow (figure 1) − although views on this are inconsistent (e.g. Tse, Pan and Au, 1997).

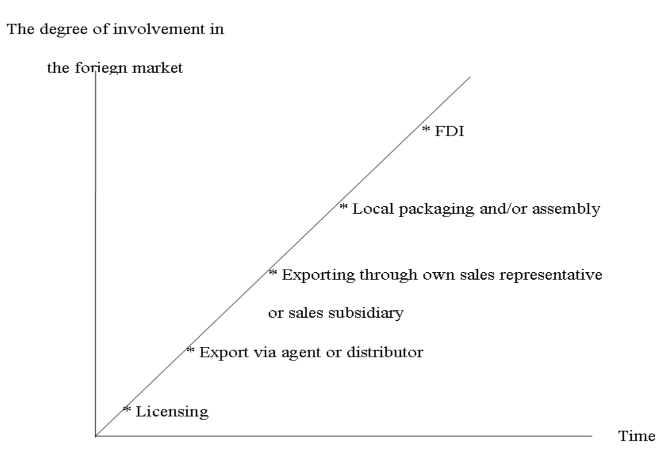

Fig. 1. Degrees of Involvement

Based on a synthesis of the literature (e.g. Bell, 1996; Chung and Enderwick, 2001), the key factors that are likely to influence the level of foreign market involvement include

- Culture of the host market and the 'fit' with the culture of a firm's home country
- Bargaining power of the firm in relation to the host government
- Political factors/country risk (e.g. governance systems, political risks, security considerations in relation tothe host market and the political leverage of the home government)
- Structure of the industry within which the firm operates and the long-term strategic orientation.
- Regulatory framework of the host country

This is by no means an exhaustive list. For example, firm-specific advantages (Driscoll, 1995) and home-country effects (Mayrhofer, 2004) are critically important for firms in making entry mode decisions. Risk assessment decisions, firms' strategic flexibility (e.g. ease of switching from one entry mode to another) and market knowledge competencies that support global responsiveness (Yeniyurt, Cavusgil and Hult, 2005) could profoundly impact the choice of entry modes. Also, a number of additional empirical studies have revealed several (some recurrent) factors thatare linked to entry mode choices, e.g. level of previous international experience (Agarwal and Ramaswami, 1992),previous experience of the specific foreign market and size of the firm(Gomes-Casseres, 1990), marketing intensity (Gatigon and Anderson, 1988), market potential of the host market (Bell, 1996) and possession of certain strategic assets, e.g. technology-driven core competencies (Smarzynska, 2000; Hill, Kim and Hwang, 1990). However, much of the discussion on the topic tends to focus on markets and the process of entry mode selection as being something of a staged routine - with firms identifying and screening a country in-depth using a raft of decision support criteria which are then considered in the context of their overall strategic objectives and the underpinning corporate and resource capabilities (Johnson, Scholes and Whittington, 2005). But, the reality is that there are no absolutes to the choice of entry mode and, consequently, the degree of foreign market involvement.

Ⅲ. Development of Hypotheses

To a significant extent, entry mode choices and the degree of involvement are largely based on the trade-off between risk and return with the final choice likely to be determined by resource availability and the level of control desired. An evaluation of a firm's foreign market involvement strategies may be based on factors related to both the firm and host markets. In this paper, based on the systemic consideration of the extant literature, the normative properties considered in relation to the firm are; level of competition, market growth rate, structure of the organisation, extent of product standardisationand possession of areas of competitive advantage. The variables considered in relation to the host market are level of economic development, regulation, political risks and differences in culture.

3.1. Variables Related to the Firm

3.1.1. Competition

The pattern of competition in host-markets could profoundly influence a firm's level of sensitivity to entry mode decisions (Rangan and Drummond, 2004). A recurrent view is that, under conditions of intense competition, multinationals would view a wholly owned subsidiary as a less preferable mode of entry than equity joint ventures mainly because of possible weakening of their bargaining power. In contrast, joint ventures might have more flexibility to confront intense and fragmented competitive industry or market situations. However, Tsang (2005) points out that the limited empirical evidence concerning competitive intensity is not conclusive. For example, Hill, Kim and Hwang (1990) indicate that international firms who challenge in a highly competitive environment are likely to choose a joint venture. Also, Gomes-Casseres (1990) finds a positive effect between the level of competition and the degree of involvement but Larimo (1993) did not find any significant effect.

3.1.2. The Rate of Growth

It may well be that, in the absence of conclusive empirical evidence on the role of competition in entry mode choices, conjectural interpretations could be sought in the rate of market growth. Hence, a fast-changing, high-growth industry may instigate a wholesome strategic response from the entering firm such that a high involvement strategy (e.g. acquisition) may be considered more suitable than a low involvement entry mode such as exporting. Under this condition, the firm is able to leverage positional and location advantages (Barbosa and Louri, 2002). Therefore, when market growth rate is positive, it is hypothesised that:

H1 The greater the level of competition, the higher the degree of involvement in the overseas market.

3.1.3. Organisation Structure

Structure determines the locus of power and control in relation to strategy processes in an organisation. The higher the degree to which an affiliate firm depends on the parent firm for strategic resources, the higher the tendency to centralise major decisions at the headquarters (Ahmad and Ishak 2006, Johnson, Scholes and Whittington, 2005). Furthermore, the greater the institutional differences between the host and home markets, the higher the risk of distorting management information systems (Rugman and Verbeke, 1989). Essentially, organisations with mechanistic structures are likely to be more reluctant to devolve authority and control over strategic assets from the corporate centre to the subunits than those with organic structures (Pugh, Hickson and Turner, 1969). The situation may become even more precarious where collaborating partners are fully independent of the focal organisation. However, with each structural arrangement offering different costs and benefits, the international firm maychoose a structure that optimises local responsiveness and flexibility especially in a dynamically discontinuous changing environment. Therefore, the effect of organisational structure on the degree of foreign market becomes an interesting one as evidence on this is inconclusive (Hill, 2005). For many firms, designing a structure to ensure that the global web of a firm's activities is appropriately coordinated is a tough balancing act which is probably why some internationalising firms start with a strategy of functional or product departmentalisation and progressively moves towards an international division or other forms of involvement strategies as the level of investment increases. This organic approach provides the international firm with appropriate market-sensing capabilities to deal with the challenges of a higher level of involvement in the foreign market as well as the organisational architecture for managing strategic assets (Hitt et al, 2006). Thus:

H2 The more centralised the firm's organisation structure, the higher the degree of involvement in the overseas market.

3.1.4. Competitive Advantage

The disparity of competitive environments between home and host markets is likely to have an impact on entry mode decisions. Thus, the mode of entry choice into a foreign market has crucial implications for competitive advantage (Hill, Kim and Hwong, 1990; Erramilli and Rao, 1993, Kim 1999). The growth of integrated global marketing and the intensity of competition, specifically in the export mode, imply that the adaptation of a global perspective has become increasingly essential in planning a marketing strategy and gaining a competitive advantage (Sheth and Parvatiyer, 2001). For the purposes of this paper, competitive advantage is identified with the following variables: low cost, innovation, marketing research and breadth of strategic targets (Dess and Davis, 1984; Johnson, 1995). According to Whitelock and Jobber (2004), low cost maintenance and preservation of margins over the log-term are clear indicators of sustainable competitive advantage. Therefore, managerial attention to cost control is necessary to achieve cost leadership. Presumably, a firm will try to reduce its production costs by accepting cheaper components (without, of course, undermining quality standards), use standard production processes and seeka higher market share in order to reduce unit costs (Phillips, Change and Buzzell, 1983).

Unique strengths in technological capabilities and the ability to innovate continuouslyare critical to sustainable competitive advantage. Biggadike (1979) points out that many companies entering new markets with products that represent incremental innovations achieve higher relative market share than those firms entering markets with products that are not uniquely differentiated from those of the active competitors. In addition,Hennart and Park (1993) argue that where the firm has a competitive advantage related to the skills (technical and intellectual) of its labour force then the firm will seek to enter a foreign market using a highly involved strategy. Kogut and

Singh (1988) noted that firms that have the ability to produce differentiated products for a specific target market would prefer the joint venture mode in a market characterised by high growth potentials and highcontractual risks.

Marketing research, especially when it leads to good market information, is crucially important for companies involved in overseas markets. Unstructured marketing problems are known to increase environmental uncertainties and difficulties inforecasting the behaviour of competitors and customers (Khandwalla, 1977 Whitelock and Jobber, 2004). It is difficult to speculate just how customers and competitors will react to new offerings and to anticipate the various problems that might occur. To cope, firms develop what Hood and Young (1979) described as breadth of strategic target - measured, for example, by the ability to develop differentiated products, creative and structured leasing transactions. However, a differentiation strategy may create the risk of loosing market control as a result of sharing knowledge with disparate partners(e.g. in joint venture modes) where a partner could adapt the knowledge and decide to operate as a separate unit. Essentially, joint ventures may be inefficient because of the inherently complex management relationshipsespecially in the area of research and knowledge transfers. This leads to the following hypotheses:

H3a The adoption of a low cost-approach to competitive advantage will lead to a higher degree of involvement.

H3b The adoption of an innovation-approach to competitive advantage will lead to a higher degree of involvement.

H3c The adoption of a market research approach to competitive advantages will lead to a higher degree of involvement.

H3d The adoption of a breadth of strategic target-approach to competitive advantage will lead to a lower degree of involvement.

3.1.5. Degree of Standardisation

The controversy over whether firms should standardise their products for marketing purposes or customise for specific markets has been very well-documented over many years now (Jain, 1989). There are advantages and disadvantages in each approach and it seems the only agreement is that firms should standardise as much aspossible to achieve scale economies and increased factor efficiency whilst providing as much differentiation as the foreign market needs (Vrontis and Kitchen, 2005).

Highly competitive international firms guard their supply chain jealously and often source factor inputs from fewer suppliers that are amenable to their control processes. The quest for international competitiveness in many cases instigates a strategy of standardisation. Johnson (1995) suggests that highly standardised products have easier access to the international marketthan customised products because of the tendency to achieve wider market penetration based on price competitiveness. This strategy could lead to the achievement of greater efficiencies and to gaining economies of scale (Jain, 1989). Moreover, Ozsomer, Bodur and Cavusgil (1991) point out that the degree of marketing standardisation is significantly higher in a wholly owned subsidiary than in joint ventures. Therefore, adopting the standardisation approach to serve the international market may be desirable insofar as developing identical products across national markets can increase the company's trade. A key assumption is that highly involved international firms move toward standardisation for the majority of their product marketing strategy (Zou, Andrus and Norvell, 1997). Other studies (e.g. Kreutzer, 1988; Samiee and Roth, 1992) provide further insights into the methods of applying the marketing mix standardisation strategy to achieve market leadership position in international markets. From what could be inferred from the literature, the following hypothesis is proffered:

H4 The higher the degree of standardisation of the international marketing mix the higher the degree of involvement.

3.2. Host Country Context in Relation to the Degree of Involvement

3.2.1. Economic Development

A number of previous studies have suggested that the variation in stages of economic development between the home and host countries is likely to impact entry mode decisions (Jain, 1989; Lee, 2005). Nations vary in the degree to which they measureon the development index (e.g. in their per capita income, energy consumption, level of education and infant mortality). The business environments in economically advanced countries are perceived less harshly than those of developing countriesby firms seeking new markets. Factors of economic development, e.g. income per capita and level of education are likely to have an effect on the buying power of consumers, skills of the workforce and capabilities of local firms. These, in turn, may lead the international firm to choose a high involvement entry mode (Bell, 1996; Gomes-Casseres, 1990).

In many third world countries, a small minority of the population relatively enjoy very high standards of living while the majority live below the internationally acceptable poverty threshold (Nwankwo and Richards, 2004). On the other hand, the developed countries (with a myriad of social safety nets) tend to have a more even-distribution of income than the developing countries. Impliedly, an internationalising firm has to consider the relative level of poverty and economic development of the countries being targeted in order to ensure that target markets are sizeable, viable and sustainable as well as the degree of similarity or dissimilarity between the market segments in home and host countries (Jain, 1989). Targeting markets in developing countries may be particularly problematic. For example, government regulations may compel entering firms to go into joint ventures with local firms. This is often seen as a means of influencing the overseas firm and/or capacitating indigenous firms. Beamish (1985) suggests that a vast number of international firms prefer joint venture to wholly owned subsidiaries, regardless of host-country requirements, in order to mitigate the cultural distance and experience effects. However, Chen et al (2004) suggests that the more experience the host country has in attracting FDI the more it is likely that the mode of entry will be wholly owned ventures. This leads to the following hypothesis:

H5 The greater the degree of economic development in the host market, the higher the degree of involvement.

3.2.2. Cultural Distance

The degree to which national cultures impact market entry decisions has continued to attract wide interests in the literature (e.g. Head and Sorensen, 2005). According to Tsang (2005), cultural distance is one of the most investigated factors in previous studies of entry mode choice, yet results have not been totally consistent. Past studies have measured cultural differences between home and host countries with either country cluster (Ronen and Shenkar, 1985) or by index (Kogut and Singh, 1988) or both (Barkema, Bell and Pennings, 1996).

Shane (1994) finds that high cultural distance is associated with high-control entry modes. Barkema, Bell and Pennings (1996) suggest that joint ventures are preferred when there is a large cultural distance between home- and host-countries. Thus, a less risky entry mode (e.g. equity joint venture as opposed to green-field venture) may be selected where cultural differences between home- and host-countries vary significantly. Other researchers (e.g. Erramilli and Rao, 1993) find a negative relationship between cultural distance and the preference for licensing over foreign direct investment. Thus, a rich body of empirical studies indicates that international firms will prefer equity joint ventures over wholly owned subsidiaries when the culture of the host country is fundamentally different from the firm's country culture (Shenkar, 2001; Anderson and Gatignon, 1986). It is known that some international firms adopt a low-control entry mode when entering a culturally similar foreign country (Taylor, Zou and Osland, 2001). However, Brouthers and Brouthers (2001) indicate that the influence of culture as a decision criterion in selecting entry modes is significantly moderated by target market investment risk perceptions. Given the weight in the literature of a negative relationship between cultural distance and control, we follow the approach adopted by Tsang (2005) and hypothesise that:

H6 The greater the cultural differences between home and host countries, the lower the degree of involvement.

3.2.3. Regulations

A study of Japanese MNEs in India, China and ASEAN countries by Siddharthan and Lakhera (2005) notes the importance of infrastructure development and the impacts of administrative controls and regulatory complexities on foreign market entry decisions. The more tenuous the rule of law in the host country, the more likely that entering firms will develop a higher perceived risk profile about the country which, in turn, could lead to a low involvement strategy. Nwankwo and Richards (2004), for example, indicate that complex bureaucratic systems and cumbersome regulatory strictures have been largely responsible for the relatively slow inward flow of FDI into Sub-Sahara African countries. Furthermore, entering firms might face regulatory environments that are different from those faced by the indigenous firms − the 'indigenisation rules' in many African countries are a good example. Therefore, the inherent need to adapt to institutional perquisites and embedding regulatory regimes of host countries is likely to influence a firm's strategy of involvement.

H7 The greater the difference in regulations between the home country and the host country, the lower the degree of involvement.

3.2.4. Political Risk

Political instability and policy uncertainty can constrain a firm to a limited number of markets or specific type of entry mode (Tsang, 2005). Firms could control the political risk factor by choosing low-control entry modes that avoids heavy resource commitments but at the same time increases strategic flexibility (Anderson and Gatignon, 1986). Nevertheless, a high-control entry mode may be required where there is a combination of high country risk and an accumulation of firm-specific non-deployable assets. Thus, in high-risk host countries, many firms might want to avoid high-control entry modes in order to minimise losses that may arise should they subsequently wish to withdraw from the country. However, when a firm has a well-established positional advantage in the host country then a high-control entry mode such as wholly owned subsidiary may be selected (Gatignon and Anderson, 1988; Kim and Hwang, 1992). Essentially, firms will select a high-control entry mode in the case of high-risk host countries when a large amount of fixed capital is required. Therefore, it is hypothesized that:

H8 The higher the political risk inthe host country, the lower the degree of involvement.

Ⅳ. Research Methods

A questionnaire instrument was constructed using, wherever possible, validated measures of the concepts to serve the aims of this study (see Table 2). The first part of the questionnaire obtained general information about the background of the respondents and their firms. The second and the third parts duplicated each other and requested information on host-country details for two different countries in which the firms have ongoing operations. The two countries were, where possible, selected from two prepared lists constructed so that the countries on each list were maximally different in terms of the host country context items.

Table 2. Variables and Measures.

Variable	Measure	Supporting Literature
Degree of involvement	Involvement in manufacturing know-how; marketing know-how; marketing expertise; R&D resources; R&D personnel; production and marketing personnel and distribution system.	Kim and Hwang (1992)
Competition	Product development, pricing strategy, quality, choice of supplier, wages and labour policy, administration and supervision, organisation and, sharing resources with the overseas market.	Bell (1996) Gomes-Casseres (1990)
Organisation structure	The size of the organisation measured by number of employees, sales revenue and market capitalisation, and the extent of authority and control in non-routine decision-making.	Pugh et al. (1969)
Competitive advantage	Identified as a concentration on either low cost, innovation, marketing research or breadth of strategic target	Dess and Davis (1984); Hood and Young (1979)
Degree of standardisation	Respondents were asked to evaluate the changes that had been made to the features or the ingredients of the product before sending them overseas, for example, product features, quality, brand name, service, distribution, positioning; packaging/labelling and promotional approach.	Levitt (1983); Jain (1989)
Economic development	GNP per capita (US$), energy consumption per capita, infant mortality per 1000 live births and the percentage of illiteracy aged 15+.	Bell, 1996
Cultural difference	Based on Hofstede's original cultural configuration	Barkema et al 1996
Regulation	The degree to which legal regulation (e.g. health, safety, and technology) in the foreign market is similar to those in the host market.	Cavusgil, Zou and Naidu (1993)
Political risk	Measured according to the instability of the host country political system; the likelihood of host government taking actions to limit the firm's ownership of the foreign venture; the likelihood of the host government constraining the foreign operation by instituting policies with respect to price control and local content requirement.	Kim and Hwang (1992)

The information requirements of the study necessitated obtaining respondents familiar with the firm's international strategy. Furthermore, the respondents were expected to be familiar with the overseas country environment and its impact upon the firm's policy. These criteria identify the firm's Chief Executive Officer (CEO) as being the most suitable respondent. The practice of using CEOs as key respondents is widespread in strategy research (Bowman and Ambrosini, 1997). This is because CEOs are presumed to be very conversant with their organisations' strategy and have the best vantage position for viewing the entire organisationalsystems (Snow and Hrebiniak, 1980). The sample was drawn from two 2004 directories: Who Owns Whom and Key British Enterprises and targeted UK firms engaged or recently engaged in international marketing operations. Using idiosyncratic sampling procedure, 750 firms were originally selected for the study but 700 were eventually contacted by telephone in order to enlist their co-operation with the research. A total of 500 of them agreed to receive the questionnaire. Following two sets of mailings, 112 usable completed questionnaires were returned, giving a response rate of 22.4 %. It was felt that this was a sufficiently large response level and not dissimilar from comparable surveys in which CEOs were targeted as key respondents.

V. Findings and Discussion

Table 3 reports the means, standard deviations, and correlations for the dependent variable and the independent variables in the order hypothesised. The correlations between the degree of involvement and the independent variables are for the most part weak and non-significant, with several displaying relationships in a direction contrary to that proposed in the hypotheses. There are four significant correlations ($p < .05$ or better) between the degree of involvement and competition, market research, degree of standardisation and political risk. Competition and market research have the expected sign, but degree of standardisation and political risk do not have the expected sign.

Table 3 displays the results of the multiple regression analyses for combinations of the independent variables where the standardised betas are reported. Model 1 captures the effects of firm characteristics on the degree of involvement. Model 1 is significant at the $p < 0.01$ level ($F = 9.199$, $R^2 = .26$). with adjusted r sq of .233. The coefficients forcompetition ($p < .01$), market research ($p < .05$) and degree of standardisation ($p < .01$) are significant. The signs on the significant coefficients of competition and market research are as anticipated, but the sign on the degree of standardisation is contrary to that expected.

Model 2 captures the effects of the host country environment on the degree of involvement. This model is not significant ($F = 6.816$, $R^2 = .19$) with adjusted r sq of .169. There are two variables with significant coefficients, economic development ($p < .05$) and political risk ($p < .01$). While economic development has the anticipated sign, political risk does not.

Model 3 is the full model including all the independent variables. The model offers a stronger, multivariate test of the hypotheses and allows the examination of how both firm characteristics and host country environment simultaneously affectthe degree of involvement. The model is significant at the $p < .01$ level ($F = 8.249$, $R^2 = .40$) with adjusted r sq of .353. Individual coefficients for competition ($p < .01$), low cost ($p < .05$), market research ($p < .01$), degree of standardisation ($p < .01$), individualism ($p < .10$), power distance ($p < .05$), uncertainty avoidance ($p < .10$) and political risk ($p < .01$) are significant. The signs on the coefficients of competition, market research, individualism and power distance are as anticipated, however, the signs of low cost, degree of standardisation, uncertainty avoidance and political risk are not as expected.

Considering model fit, it may be seen that a model which includes both firm characteristics and host country environment can better explain degree of involvement than a model that incorporates either set of variables alone. The full model (Model 3) explains an additional 14 percent of the variance in degree of involvement over the model which includes only the firm characteristics (Model 1), and the full model explains an additional 20 percent of the variance compared to the model which just includes host country environment variables. The hypothesised set of relationships are clearly supported in only two instances, competition and market research, in that the variables are significant with the hypothesised sign in both models in which they are included.

Table 3. Means, Standard Deviations and Spearman Rank Order Correlations

	Mean	S. D	1	2	3	4	5	6
1- Degree of Involvement	2.297	.897						
2- Competition	3.164	.761	.359***					
3- Organisation Structure	2.980	.535	-.048	-.143**				
4- Low cost	4.50	.577	.015	.236***	-.139**			
5- Innovation	3.257	.975	.093	.026	-.082	.107		
6- Marketing research	3.339	.970	.148**	.055	-.014	.106	.386***	
7- Focus	3.181	.855	.019	-.049	.026	.033	.127*	-.183***
8- Degree of Standardisation	3.875	.829	-.390***	-.266***	.017	-.054	-.227***	-.075
9- Economic Development	2.650	2.555	.046	.082	.011	.005	.115*	.151**
10- Individualism	64.934	23.807	-.039	.103	-.043	-.018	-.002	.060
11- Power Distance	53.325	16.879	.008	-.091	.099	.050	-.014	-.017
12- Uncertainty Avoidance	60.864	21.075	.020	-.161**	.051	.042	.098	.132*
13- Masculinity	55.907	16.218	-.021	.025	.110	-.036	.035	.122*
14- Regulation	2.159	1.344	.071	-.087	-.009	.005	-.081	.029
15- political risk	1.713	.788	.412***	.185***	-.002	.132*	.101	-.001

	7	8	9	10	11	12	13	14
1- Degree of Involvement								
2- Competition								
3- Organisation Structure								
4- Low cost								
5- Innovation								
6- Marketing research								
7- Focus								
8- Degree of Standardisation	-.104							
9- Economic Development	.016	-.142**						
10- Individualism	-.074	-.050	.730***					
11- Power Distance	.072	.006	-.490***	-.608***				
12- Uncertainty Avoidance	.015	.000	-.066	-.257***	.493***			
13- Masculinity	.019	-.017	.207***	.253***	-.445***	-.269***		
14- Regulation	-.106	-.157**	.005	-.097	.094	.037	.001	
15- political risk	-.041	-.293***	-.326***	-.332***	.200***	-.031	-.011	.301***

* P< .10
** P<.05
*** P< .01

The findings indicate that when a highly competitive market is encountered, international firms will prefer a high-control entry mode such as a joint venture or a wholly owned subsidiary, implying that this will give the firm a better opportunity to deal with the competition. The results are consistent with the previous findings that a wholly owned subsidiary is preferable to a joint venture when a highly competitive market is considered (Bell. 1996). Also, the findings are in line with Gomes-Casseres's (1990) findings which showthat there is a significant relationship between competition and the degree of involvement with regard to the preference for joint ventures.

Of the four competitive advantage variables, only for the market research variable is there any support for the hypothesised relationship. Overall, however, the findings for the competitive advantage variables indicate little support for the hypothesised relationships. Nevertheless, the findings point to the importance of market research to firms seeking to become involved in foreign markets. There is weak support for the hypothesised set of relationships in three cases, economic development and cultural distancein that these variables are significant with the hypothesised sign in one of the two models in which they are included.

It is clear that the level of economic development is an important factor for many firms deciding to become involved in foreign markets. Themore developed the host country, the greater the tendency for entering firms to prefer a high-involvement entry mode. This finding did not flag up any surprises because it has been previously suggested that firms prefer to enter developed countries with more high-involvement entry modes than they do for developing countries. An important reason for this is that local firms in more developed countries can offer the entering firm more than local firms in less-developed countries can in terms of commercial experience and quality labour force (Gomes-Casseres, 1990). The findings showing a significant negative relationship between individualism and power distance and the degree of involvement supports the view that foreign firms will prefer a lower involvement mode in cases where cultural differences between countries are more pronounced (Davidson and McFetridge, 1985; Kogut and Singh 1988). Some firms may select a low entry mode such as exporting in order to avoid potential conflicts that can be created when cultural differences are high. Other firms may prefer joint venture arrangements to wholly-owned subsidiaries when countries being entered have a dissimilar culture (e.g. Bell, 1996; Erramilli and Rao, 1993). However, Brouthers and Brouthers (2001) remind us that the level of investment risk perception moderates the relationship between cultural distance and entry mode decisions.

Table 4. Results of Regression Analyses

Variable	Model 1 Firm Context	Model 2 Host Country Context	Model 3 Full Model
	Beta	Beta	Beta
Competition	.373***		.329***
Organisation Structure	.049		.048
Low cost	-.094		-.154**
Innovation	-.034		-.056
Market Research	.155**		.197***
Breadth of strategic target (focus)	.062		.065
Degree of Standardisation	-.236***		-.168**
Economic Development		.228**	.105
Individualism		-.097	-.168*
Power Distance		-.089	-.199**
Uncertainty Avoidance		.059	.126*
Masculinity		-.009	-.015
Regulation		-.089	-.083
Political risk		.489***	.414***
R sq	.261	.198	.402
Adjusted R sq	.233	.169	.353
F	9.199***	6.816	8.249***

* p < .10; ** p <.05; *** p < .01

There is no support for the hypotheses involving the remaining set of variables in that either the variables are not significant or else the variables are significant but with a sign that is contrary to that hypothesised. For example, the significant positive association between political risk and degree of involvement is worthy of note. Although the sign is contrary to that hypothesised, the literature is somewhat ambiguous about the relationship between political risk and degree of involvement with some arguing that in the case of high-risk host countries a high-control entry mode will be chosen (Agarwal and Ramaswani, 1992). The findings of this study would tend to support that view.

To sum up, this paper investigated the influence of firm contexts (competition, organisation structure, competitive advantages, and the degree of standardisation) and host country contexts (economic development, cultural differences, regulation, and political risk) upon the degree of involvement in foreign markets. Statistically, the paper suggests that factors relating to the level of competition, competitive advantages and economic development are strong in influencing foreign market involvements. On the other hand, unexpectedly, cultural factors (especially individualism/collectivism and low and high power distance dimensions) proved to have weak moderating effects. The reason for this, in part, is due to the pervading forces of globalisation and the attendant effect on global marketing (Sheth and Parvatiyar, 2001).

Ⅵ. Conclusions

In international business contexts, issues relating to foreign market involvement have been a subject of intense scholarly inquiry for quite some time. While the discussion has proliferated in the international business literature, we are still much father away from a ‘final theory’ of foreign market involvement and/or a comprehensive synthesis of the contextual factors and decision processes that explains a firm’s proclivity to foreign market involvement. To contribute to the on-going research, this study has examined the relationship between firm characteristics and host country environment in relation to the degree of foreign market involvement.

This paper has contributed to the general literature in a way that point to two main implications. First, with respect to research on national systems, the studymay hold out some important lessons especially for developing nations. Most of these nations are known to be actively seeking to understand what it takes to attract foreign direct investment, expand domestic market and move their economies from the margin to the mainstream global economy. It is suggested that location-specific advantages or domestic incentives may not, by themselves, be sufficient to attract high-degree involvement of multinational corporations. While it is desirable to foster a market-enabling environment for FDI (Buckley and Ruane, 2006), a more balanced analysis of international firms’ operational dynamics is needed in terms of their internal processes, strategic market-expansion priorities and home country factors. All these combine in different degrees to explain a firm’s strategic move towards foreign market involvement. Second, it should be realised that competitive conditions remain in constant flux (even in mature industries and mature economies). This implies that a range of home country factors may be as important as host country factors in explaining firms’ strategic moves and the degree of foreign market involvement.

Fundamentally, foreign market entry decisions are analogous to the activity that Leontiades (2001) described as ‘global gamesmanship’ -a game in which winning or losing depends on the performance of a focal company against other competitors. Thus, in the face of intensely growing global competition in many sectors, strategic decisions relating to the degree of foreign market involvement of firms is considerably driven by perceptions of the relative performance of rivals and the nature of rivalry both in home and foreign markets. Therefore, a snapshot, moment-in-time knowledge is not enough for well grounded explanations of foreign market involvement decisions of large companies. For this reason, there is a need to continue to combine long-term perspectives and intensive research designs in the study of firms’ foreign market entry mode and the nature of involvement decisions.

Ⅶ. Opportunities for Future Research

This paper has provided some insights on a number of relationships using a sample of UK firms and their foreign affiliates. Further research can consider the impact of the home country environment on foreign market involvement decisions. Such an investigation will potentially provide further perspectives not only on the influence of national origin (Mayrhofer, 2004) but also how home country effects are confounded with industry effects (Yip, Rugman and Kudina, 2006). It is certainly an area that is worth further investigation as well as the relationship between firm characteristics and host country environment in relation to the degree of foreign market involvement using a comparative sample of firms from different contextual backgrounds that are focused on developing economies. In this way, further insights might be obtained on why some developing countries facing similar resource and natural endowment constraints are more successful than others in attracting inward foreign investments. Also, further refinement of some of the variables examined in this study would be useful, in particular, the characteristics of competitive advantage, the measure of economic development and the emerging perspectives on cultural differences. Furthermore, in this study, no distinctions were madebetween green-field investments, acquisitions and joint ventures as alternative FDI entry modes. It is possible that each specific entry mode scenario maypresent peculiar cases that may constrain the robustness of the variables examined in this paper.

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