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Table of content

List of Figures

List of Tables

1 Introduction

Expansion is not only one of the most exciting stages in the lifecycle of a company, as well as especially crucial and delicate.

“Firms face three interlocking questions with regard to international expansion: what market to enter (entry location), how to enter (mode of entry), and when to enter (timing of entry).”
(Gaba, Pan and Ungson 2002)

But why is the right entry mode so important?
It provides the company with the degree of flexibility to properly manage its resources, adjust to market changes (customer behaviour, suppliers, price levels…), react to unforeseen situations and be able to undertake necessary strategic steps. (Domke-Damonte, 2000)

The topic of market entry strategies and their influencing factors has been treated in literature quite well but only a few serious models were developed. In the following chapters the most important frameworks will be described. Not many studies investigate market entries into developing countries, which would be important as the decision may differ substantially between developed and developing markets. As emerging countries are much more complex and entrants are faced with problems that are more severe and in a greater number, additional factors may play a role, which are not considered in studies within developed countries.

As I was currently working in Asia, in form of an internship, I started my study in one of the economically most important countries. A country, which is said to become even stronger in the near future and will, with its high growth rate, possibly leave China behind in the coming years – the country I am talking about is known as Incredible India.

In the following chapters a country profile of India is drawn (chapter 2), the market entry strategies relevant for this study are summarized (chapter 3), the most common

frameworks developed in regard to market entry decisions are explained (chapter 4) and an overview over factors said to influence the decision process is given (chapter 5).
In chapter 6 the methodology of the study is described, including the development of the hypothesis. Descriptive statistics are calculated and the main results are shown. These lead to interpretations and conclusions in chapter 7, as well as to future research implications described in chapter 8.

2 India

According to Kaynak, Demirbag and Tatogulu (2007) 75% of the world trade growth in the next 20 years are expected to arise only from developing countries. Today Asian markets are some of the fastest economically developing regions in the world. (Federal Ministry for European und International Affairs: Aussenpolitischer Bericht 2006) Especially, China, India and Malaysia are expected to lead the worldwide ranking with more than 5% annual growth till 2020. (Austria Wirtschaftsservice – Innovationsschutzprogramm 2006)

But what exactly characterises a developing country? Two definitions give a better understanding of emerging markets and related problems:
"Emerging markets are low-income, rapid growth countries using economic liberalization as their engine of growth"
(Hoskisson et al. 2000)

"Whereas developed markets tend to have well-established rules of exchange, emerging markets have high degrees of institutional uncertainty reflected by ineffective or unclear rule of law and weak enforcement of rules of exchange. Moreover, institutional differences between emerging and developed markets influence managers´ strategic orientation towards competitors and partner.s"
(Garten 1996)

The instvestments of multinational companies (MNCs) are an important contribution and have a great impact on the development of the economy in emerging markets like countries in Asia. But most emerging countries are struggegling to keep up their legal conditions with the rapid financial and economic development, which makes it especially difficult for foreign companies to operate in these markets.

According to the „Doing Business“-Report from The World Bank (2004) poor countries, compared to richer countries, hold stricter and not consistent regulations for companies. Generally spoken, strong restrictions usually result in inefficiency of public institutions and high corruption. The probem lies often in the complexity and opacity of procedures, necessary to do business in those countries. Better transparency in these matters would, for example, help to hinder and reduce bribery. (The World Bank: Doing business in 2004)
In this regard a strong juridical system to enforce law is often missing. It takes too long to go through a lawsuit and it costs too much. The same applies for enforcing contracts which makes business operations difficult and risky for MNCs. (The World Bank: Doing business in 2004)

The study was undertaken in a fast developing Asian country, which holds exactly the above mentioned challenges for foreign companies. India is now one of the most interesting markets worldwide with great potential. It is an excellent production and IT-service location and has a constantly growing middle class of an estimated 300 billion consumers. But India also holds drawbacks like a bad (insufficient) infrastructure, old labor laws, high level of bureaucracy, increasing salaries and high real estate prices. (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)
Furthermore, India´s civil service (10 million officers) and public sector, which urgently needs a top-to-bottom reform, hinder a fast sustainable growth rate and block the financial flow of the rising economy to the poorest in the country. (Anonymous author: Economist, 2008)

To secure India´s competitive position in the world market and support further economic growth, the government needs to develop and secure the necessary and crucial surrounding conditions. Great investments in education, infrastructure and law enforcement would be important contributions. (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)

2.1 Historical development

Since 2500 B.C., the life of Indians was affected by commerce and agricultural trade. During the 4th and 5th centuries A.D. – India´s Golden Age - India was reigned by the Gupta Dynasty, which successfully developed political administration. Hindu culture could grow and at the same time, Islam was disseminated throughout the country. During the 11th and 15th centuries the coexistence of both religions led partly to interferences and left traces on both, Islam and Hinduism. (CIA World Factbook, accessed 20th of June 2009)

In 1619 Great Britain opened its first outpost in India, which was followed by several others from the East India Company. In the following years Great Britain gained power in the country and ruled India, Pakistan and Bangladesh from 1850 onwards. By the end of the century, India was given room to slowly start self-governance. On August 15, 1947 India became independent from Great Britain, after parliamentary and non-violent resistance by Mohandas Gandhi and Jawaharlal Nehru from the Indian National Congress Party. Due to conflicts between Hindus and Muslims, Pakistan was bordered from the rest of India and divided into East and West Pakistan. After another war in 1971, East Pakistan became the separate state of Bangladesh. (CIA World Factbook, accessed 20th of June 2009)

In the following years, India was lead by the Congress Party (of Mahatma Gandhi and Jawaharlal Nehru), the Janata Party (Moraji Desai), V.P. Singh and Chandra Shekhar. In the 1990s, under the Congress (I) Party – for "Indira Gandhi"- the Indian economy profited from liberalized global trade and investments but was afterwards strongly affected by political corruption scandals. In 1998 nuclear tests were undertaken in India and the United States of America punished India with economic sanctions according to the 1994 Nuclear Proliferation Prevention Act.

The current chief of the state today is President Pratibha Patil with Prime Minister Manmohan Singh. Today, the leading political parties in India are the Indian National Congress (INC), Bharatiya Janata Party (BJP) and Samajwadi Party (SP). (CIA World Factbook, accessed 20th of June 2009)

Although the economy is growing and international trade has been liberalised, India is still suffering and facing lots of problems. The population is growing too fast, conflicts between different religions within the country are rising, India and Pakistan are still arguing about the Kashmir region and a great amount of people are living below the poverty line. Additionally, severe terror attacks are threatening the country. The latest and most devastating one in the near past was the attack in Mumbai on the 26th of November 2008, where an estimated 179 people died on 10 targets in Mumbai and many more were seriously injured. (CNN Asia, accessed on 20th of June 2009)
Accordingly, tourism decreased tremendously, a very crucial income sector for the country.

2.2 Country profile

India is a federal republic with 28 states and 7 union territories. Its capital city is New Delhi and by geographical size, India is the 7th largest country in the world. (Wikipedia, accessed on 20th of April 2009)

Figure 1: India and its borders

In the North, India adjoins to Pakistan, China, Nepal, Bhutan, Bangladesh and Burma, but about 2/3rds of the country´s borders are open to the sea, namely the Arabian Sea and the Bay of Bengale. (CIA World Factbook, accessed 20th of June 2009)

Official languages are Hindi and English (subsidiary), yet another 21[1] languages exist in the country. 80.5% of Indians are Hindus, 13.4% are Muslims, 2.3% are Christians, 1.9% are Sikhs and a smaller number of Indians are Buddhists, Jains or Judes.
The currency in India is the Indian Rupee (INR) with an exchange rate per EURO of 66,888. (Austrian Nationalbank, accessed19th of June 2009)

[1] (the number differs in various reports between 18 and 22)

India is the world´s biggest democracy. The country has a size of 3,287,590 sq km. It counts a population of about 1, 147, 995, 898 (about 51,5% male and 48,5% female), which is expected to grow by 1,578% for the year 2008. Furthermore, scientists state that in 2045 India will have the greatest population worldwide, leaving even China behind. (Ernst and Young 2006)

It is said that: *"The huge and growing population is the fundamental social, economic, and environmental problem."* of the country. (CIA World Factbook, accessed 20th of June 2009)

But the growing population (1.7% per year) and the fact that the majority of the Indians is young and working, will also secure the further economic growth in the long run. A study (May 2005) of the German Bank ranks India as the country with the highest growth worldwide in 2020. (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)

31.5% of the inhabitants are below 15 years old, 63.3% are aged between 15 and 65 and only 5.2% are above 65 years old. According to PricewaterhouseCoopers, with the average age of 25.1 years India has the youngest population worldwide. The birth-rate lies at 2.76 which means, on an average an Indian family has 2-3 children. The life expectancy lies at 66.87 years for men and at 71.9 years for women. The country has an unemployment rate of 7.2% and a literacy rate of 61%, indicating that about 40 % of the population cannot read or write. (CIA World Factbook, accessed 20th of June 2009)

Poverty was reduced by about 10 % due to an average growth rate of about 7% in the last decade. Still 25% of the population in India live below the poverty line. About one quarter of the Indian population has to manage life with 1 USD per day and about 80% with 2 USD per day. Approximately two thirds of Indians live in the rural areas under medieval conditions. The majority of these people survive because India has relatively low costs of living. (Ernst and Young 2006, Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008, CIA World Factbook, accessed 20th of June 2009)

Despite poverty, 49.75 million Indians (2005) have a telephone landline and 233.62 million (2007) are using cell phones. Furthermore in 2005, 60 million Indians used the World Wide Web. (CIA World Factbook, accessed 20th of June 2009)
Human Rights in Asia are watched closely by the worldwide public. India is a member of the Human Rights Council together with Bangladesh, China, Indonesia, Japan, Malaysia, Pakistan, the Philippines, South Korea and Sri Lanka. All members obligated themselves not only to observe human rights but also to work together with UN human rights institutions, develop and keep national frameworks, as well as support and maintain international standards for the same matter.

A crucial topic is to safeguarde that the money flow from the economic boom in Asia does not end in the hands of the rich, but is passed on to the poor. Other issues include transparent data related to the death penalty, where currently no credible statistics exist. Further topics are forced labor of men, women and children (brick kilns, rice mills, embroidery factories), commercial sexual exploitation and forced marriage. (Amnesty International, accessed on 23rd of March 2009)

2.3 Cultural characteristics

To describe the Indian culture, the measures of Geert Hofstede are used. His model to measure foreign culture by five dimensions (Power Distance, Individualism, Masculinity, Uncertainty Avoidance and Long-Term Orientation) is well known. The original study was undertaken between 1967 and 1972. Later studies from other researchers followed and showed similar results.

Starting with Power Distance, this index expresses the unequal distribution of power as well as wealth within a society and the acceptance of these matters by the weaker part of the population. India has a very high PD-Index with 77 compared to the world average of 56.5. This means that power and wealth are especially unequally distributed and this situation is accepted as a cultural “norm” by the majority of the population.

The index of Masculinity describes the dominating values within a society, split up according to male and female characteristics. A feminine society is characterised by helpfulness, taking care of fellow men and relations, sensitivity, friendliness, solidarity

and equality. A male society on the other hand, shows dominating values like competitiveness, ambition, success, money drive and less willingness for compromise.
This index computes a number of 56 for India compared to a world average of about 51. It shows a tendency towards Masculinity but not as strong as other Asian countries (like Japan for example ranks at 95).
For doing business in India, this might be valuable as it is expected from a senior to be especially decisive, showing respect in situations like negotiations and hierarchy might be important in organisational structures (as can be seen within the Indian society regarding the caste system).

Individualism explains the level of integration of individuals into groups. In countries with high individualism, people are expected to be independent and responsible for themselfes. India has a low score of 48, which describes a country where people are integrated in a group – usually the family, including far relatives – which protects and supports everybody, who is part of it.

India ranks very low at Uncertainty Avoidance with a value of 40 compared to the world´s average at 65. A high Uncertainty Avoidance index would describe a population with the majority of people trying to avoid uncertain situations. In order to minimize the possibility of having to deal with sudden incidents, a lot of rules and laws exist in these countries. But the low value in the study for India describes a country of fewer rules for unexpected situations and people might be more tolerant for "unstructured" processes and situations. (Geert Hofstede, accessed on 23rd of March 2009)
I interpret the last index as such as, that in India uncertain situations and changes are on the daily schedule. Planning for the "long run" usually does not happen.

The index of Long-Term Orientation with 61 is significantly higher than the world average at 48. It characterises the attitude of a society to value virtue higher than truth and describes India as perseverant and of high thrift.

2.4 Economical data

India had extraordinary high growth rates of 8 to 9 % in the last 5 years. Due to the worldwide economic downturn lately, as well as the monetary policy to fight inflation in India, coming growth rates are expected to fall to about 7,5%. (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008) Inflation in 2007 added up to 6.4% and has reached 13% in the first half of 2008, which constitutes a dangerous factor for the development of the economy. The Indian Rupee fell and lost between 17 to 19% against the EURO/USD. (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)

India had a GDP of 9.2% in 2007, split into the following sectors: 17.6% from agriculture, 29.4% in industry and 52.9% in the service sector. The labour force works in the following sectors: 60% in agriculture, 12% in industry and 28% in services (2003). (CIA World Factbook, accessed 20th of June 2009)

According to the World Factbook, the major industries in India are textiles, chemicals, food processing, steel, transportation equipment, cement, mining, petroleum, machinery, and software.
But furthermore, India is known now for it´s well educated software workers and this industry is growing rapidly. (CIA World Factbook, accessed 20th of June 2009, Ernst and Young 2006, Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)

During the last years, the country could substantially increase both, its imports and exports. (Ernst and Young 2006) According to the AWO-Wirtschaftsreport 2008 the European Union is India´s largest trading partner respective to imports, as well as exports. Therefore, the EU has plans to strengthen and further develop the strategic partnerships with China, India and Japan. (Federal Ministry for European und International Affairs: *Aussenpolitischer Bericht 2006*)

Exports from India to the EU (21%), US (13%), UAE (10%) and China (7%) add up to $162.9 billion. The main exported products are machinery and metal products (21%), petroleum products (17%), chemical and pharmaceutical products (14%), gem and jewellery (12%), textile goods (11%), and agricultural products (8%). The imports from the EU (15%), China (11%), US (8%), Saudi Arabia (8%) and UAE (5%) add up to $251.4 billion. The imports are primarily crude oil and oil derivatives (35%), gold (11%), machinery (9%) and electronics (8%). (Hörtnagl H.-J. Mag.: AWO-Wirtschaftsreport Indien 1. HJ 2008)

2.5 Undertaking business in India

Rules and guidelines for setting up public or private companies in India are summarized in the Indian Companies Act, 1956. The Industrial Policy Resolution and the Statement on Industrial Policy of 1991 opened several branches, which were in public hands also to private investors. Discussions about further privatization of government-owned industries are still ongoing but not yet put into action.

Furthermore, import tariffs were reduced and license requirements, as well as restrictions on foreign trade and investments, were dropped in many sectors but exceptions still exist. (CIA World Factbook, accessed 20th of June 2009) Great discussions arise also over intellectual property rights protection, which is still under progression.

Through the Company Risk Assessment (2005, based on the Universal Declaration of Human Rights) human rights in India were examined and rated. Several were identified to constitute risks to foreign companies who plan to enter the Indian market for business operations. But in general, the Federation of International Trade Associations ranks India as a country with low political and medium commercial risk. (The human rights and business project, accessed on 5th of May 2009)

India has 14 functional SEZ (special economic zones) while another 150 are in the process of establishment to support companies in trading, manufacturing or service activities. (Ernst and Young 2006) Additionally, every state holds incentives for investments, the exact amount and nature varies between the states and is usually greater for investments in lagging regions.

Industrial areas:

North: New Delhi (NCR-Gurgaon, Noida)

South: Chennai, Bangalore, Hyderabad

East: Kolkata

West: Mumbai, Pune, Ahmedabad

(Mag. H. Hörtnagl 2006)

Figure 2: India´s industrial areas (Mag. H. Hörtnagl 2006)

Although the government facilitated procedures necessary to start and operate a business in India in the last years, bureaucracy is still excessive and constitutes a major obstacle for companies willing to start their business in India. At the same time, the great population represents a huge consumer market, as well as a big market of manpower, of which a great part speaks English. These are major incentives for MNCs to operate in India and they are shifting their production more and more to India due to cost advantages. (Ernst and Young 2006)

The working week in India has commonly six days and on an average will comprise of about 48 working hours. The salary for a medium skilled employee, for example a secretary, lays around 7,000 to 8,000 INR. (about 109 EUR, exchange rate 68.533, according to Austrian Nationalbank on 20.07. 2009)

Education in India is rising which shows an example of the numbers of alumni engineers. In 2004 India counted approximately 215,000 graduates of engineering colleges. In comparison, China had 640,000 (2004) graduates, USA 220,000 (2004) and EU25 had about 420,000 (2003). (Mag. M. M. Mayer 2007)

2.6 Austria - India

In 2005, the Federal President of Austria, Heinz Fischer, came to India with a large business delegation. This was the first Austrian state visit to India in history and is of great significance in matters of economic relations between the two countries. When comparing India to Austria, one has to state that India is 40 times bigger and has a population 120 times greater than Austria. Each of the biggest cities in India (like Mumbai, Delhi, Kolkatta) has more inhabitants, than Austria as a whole. (Europe and India, accessed on 27th of May 2009)

In 1999 Mr. Heinz Rampitsch (former Austrian Trade Commissioner in India) stated that at that time about 50 companies colloborated with Indian firms through joint ventures, over 100 Austrian companies established technical co-operation agreements with India and around 300 are regularly involved in exporting to or importing from India. (Europe and India, accessed on 27th of May 2009) In 2008, Mr. Mag. Hofstadler

(Austrian Deputy Trade Commissioner in New Delhi 2007) estimated that about 500 Austrian companies are doing business with India.
According to the AWO Wirtschaftsreport Indien (Hörtnagl H.-J. Mag. 2008) first half of 2008) the trading volume of Austria and India reached a record peak in 2007 with 866.2 billion EURO. Austria has 527.5 billion EURO of exports to India and imports of 338.7 billion EURO. Machinery and vehicles account for 50% of Austrian exports to India. Further export products include iron and steel (15%), chemical products, synthetics and pharmaceuticals (9%), building material and glas (7%), measurement, testing and monitoring devices (3%) and hardware (3%). Important import products from India are apparel and accessories (28%), machinery and vehicles (16%), chemical products and pharmaceuticals (12%), textiles (10%), shoes (7%) and food (5%).
Mr. Mag. Hörtnagl (Austrian Trade Comnissioner in New Delhi 2007) mentioned several industry sectors with high potential especially for Austrian companies. These sectors include: infrastructure (transportation, energy, city-infrastructure) and construction, automotive supply industry, environment engineering, electronics, automation/measurement and control technology, medical technology as well as alternative energy.

India offers some important advantages for companies willing to invest into the market but on the other hand holds also several barriers and risks. Factors enhancing India´s attractiveness for investments are for example:

- A huge market.
  India´s population counted by mid of 2008 a number of 1, 147, 995, 898 people. The middle class is represented by approximately as much as 300 million inhabitants. (Ernst and Young 2006)
- Industries with the need for expansion and a high growth rate.
- The language.
  90 million Indians speak English, which is the second official language. This makes operating in the market easy and India attractive, especially when MNCs want to expand their business to Asia. India may be the first of several Asian countries to start an expansion and to establish a base for serving further Asian markets.
- Mentality.

Indian inhabitants are commonly said to be relaxed, friendly and helpful people.

- Legal security, economic and political stability.

Crucial points, companies have to take into account, when entering the Indian market are for example:

- Import restrictions.

  Differing between the industry sectors, the Indian government holds import restrictions like tariffs, quotas or a mandatory entry form, for example joint venture for the retail business.
- Specifications.

  India is known as a high bureaucratical country, which may complicate to set up or/and operate a business.
- Incomplete infrastructure.

  This includes several electrical power cuts during the day, water shortages in some regions, (no or low) availability of public transportation and further limitations.
- The legal framework.

  Despite existing laws, the juridical enforceability is often very difficult. Bribery is still a big issue in India and complicated to deal with, especially for foreign companies. Another factor is time, because it may take several years or decades till a trial even beginns.
- Cultural differences.

  As mentined above, the Indian culture differs in various aspects from the Western cultural characteristics. This influences of course business practices, which increases misunderstandings and asymetric distribution of information.

  (Mag. Hörtnagl – Austrian Trade Commissioner in New Delhi 2007)
- Visa.

  Difficulties with issuing of Visa for Indian employees travelling out of the country (for example to Austria).
- Product quality.

  Problems with the low level of the product quality compared to European standards.
- Punctuality.

  Timing delay of orders and delay in delivery of imported Indian goods.

3 Market Entry Strategies

According to Gaba et al. (2002) firms have to deal with three important decisions when they want to expand into foreign markets: which market they want to enter, which entry mode should be used, and what time is appropriate or ideal for the entry. This thesis and the conducted study deal with the dimension of the specific entry strategy to be chosen.

„A foreign entry mode (FEM) is an institutional arrangement facilitating the entry of a company´s products, technology, human skills, management, or other resources into a foreign market” (Root, 1994).

Entry modes are primarily classified according to their equity, control or resource commitment. All of these three factors are interrelated and affect each other. (Rhoades and Rechner 2001) Taylor, Zou and Osland (2000) defined control in this context as „the firm´s need to influence systems, methods, and decisions in the foreign market“. High control is reached when the firm owns the subsidiary or holds high equity. But this includes high resource commitment, which can be financial (e.g. capital, land, buildings, plants, machinery), and/or non-financial (e.g. tacit know-how, new technology, personal, management expertise, local market knowledge, distribution and marketing channels). (Yan, Gray 1994, Child, Yan 1999)

Prior studies focus either on the difference 1) between full control or shared control modes, 2) inbetween several individual entry modes or 3) within full control or within shared control modes (Erramilli, Agarwal and Dev 2002). In this study, the focus is on equity to distinguish between the different entry modes. Factors, said to influence the decision of companies, regarding equity or non-equity entry modes into devloped markets are tested.

Some authors established hierarchical models for the entry mode decision, assuming that the first decision is among equity vs. non-equity modes. The second decision would be in between the modes chosen in the first decision – either within equity modes or within non-equity modes. (Pan and Tse 2000, Kumar and Subramaniam 1997).

On the other hand, the company-life-cycle theory assumes a company chooses entry modes according to its growth and maturity stage. As first steps into a new market, this would be non-equity modes, in particular export activities before risking higher investments. As more experience and financial resources are gained, forms between full control modes and export activities will be used, like co-operations with a (local) partner, including different levels of equity investments. Firms are said to favour internal modes (wholly owned subsidiaries or joint ventures) when transferring tacit (i.e. imperfectly irritable) capabilities, and market modes (licensing) when transferring codified (i.e. readily irritable) capabilities. (Erramilli, Agarwal and Dev 2002)
Especially in the case of an unstable environment or during risky and expansive strategic moves, when firms want to share costs and risks, co-operations hold great advantages for all involved parties. (Eisenhardt and Schoonhoven 1996).

Barringer and Harrison (2000) defined equity modes as strategies, which require the establishment of a separate new entity and non-equity as modes based on contractual agreements.
According to Hill, Hwang and Kim (1990) non-equity modes offer companies more flexibility and lower resource commitment as equity modes, but also less potential for profits and lower levels of control. Some authors state that high equity modes are more efficient through economies of scale compared to non-equity modes and offer higher profits. Furthermore, these strategies make it possible to reduce costs, as well as risks involved when working in a foreign market, and to keep their flexibility, which is important in order to quickly adapt to a changing and uncertain market. (Chen, Mujtaba 2007, Hwang 2004)

3.1 Equity

Equity modes are often chosen when the transfer of tacit knowledge is involved in an operation because this will be facilitated when the business partners are linked through common ownership. (Hennart 1988) Furthermore, equity modes offer so called ownership advantages, which are firm-specific and usually cannot be used by third parties outside the company. (Dunning 1988) This strategy also offers access (according to the equity share of the business partners) to the combined resources and assets and is therefore said to enhance information exchange and resource management. (Harrigan 1986, Kogut 1988). Lei et al. (1997) even states that cooperations with companies which are providing complementary knowledge is especially advantageous because they offer new information, ideas and approaches. But important for equity modes is taking caution with delicate information and valuable knowledge. Not everything should be shared; instead especially the core competencies of the firm need to be protected. (Sanyal 2001)

According to Kaynak et al. (2007) in the case of emerging markets, split equity modes might be the most suitable entry strategies due to their advantages of risk sharing and utilization of complementary skills and knowledge (especially about the foreign market).

But in new markets, culturally distinct from the home country of the foreign company, the corporate cultures often also vary strongly. This might be in matters of organizational structures and hierarchies, salary systems, human resource management and readiness to assume risk. (Sanyal 2001) The difficulty, when two or more companies with various cultural (national) backgrounds start working together, is how they manage to deal with their different corporate, as well as national, cultures. (Fedor, Werther 1995)

Generally, higher equity share provides the company with stronger influence on strategic decisions. (Child and Yan 1999) The highest shares of equity would be 100 percent and are possible in the case of a merger, acquisition or the establishment of a new enterprise. (Kaynak, Demirbag, Tatoglu 2007) Acquisitions are more risky than other entry forms, as they are difficult (or impossible) to change or terminate because they are neither negotiable nor co-operative. (Chen, Mujtaba 2007)

Reasons for the termination of such cooperation include the completion of the conjoint project, missing success, disputes between the companies, violation of contractual provisions, modified strategy or finance issues. (Serapio, Cascio 1996)

EQUITY JOINT VENTURE

An equity joint venture can be understood as either the establishment of a separate organization, by two or more companies holding equity shares of this common organization, or the acquisition of shares of a company by one or more enterprises. The business partners both exercise control and split the gains and losses according to their shares. (Kogut, Singh 1988, Sanyal 2001, Wang 2006, De Keijzer 1992)

joint ventures (JVs) generally offer the possibility to gain complementary knowledge which otherwise would not be possible to share. (Kogut, Singh 1988) Additional motives for forming joint ventures include economies of scale and synergy, access to a greater pool of resources, elimination of a competitor or foreign market entry. Further reasons within a foreign market might be that the firm gained enough experience in the country and sees itself ready for acquiring equity ownership in another company. Possibly, the company chooses a JV strategy to gain more knowledge and experience in the foreign market before it acquires full equity and operates as a wholly owned subsidiary. (Sanyal 2001) Joint ventures might also be chosen as entry modes when smaller companies need to finance their research and development projects. (Hennart 1988)

According to the definition by the US Department of Commerce, a joint venture is a company with 11% to 90% foreign equity ownership. In detail one can distinguish between the following joint ventures:
Minority foreign-owned JV: 10-49% foreign equity ownership
Equal ownership JVs: 50/50% foreign equity ownership
Majority foreign-owned JVs: 51-90% foreign equity ownership

PORTFOLIO INVESTMENT

A foreign equity ownership below 10% is referred to as a portfolio investment (consistent with the definition of a JV by the US Department of Commerce). Portfolio investments need to be distinguished from (foreign) direct investment, where the investors are seriously interested in a long-term investment and in active participation in the business activities. (Moneyterms, accessed on 15th of May 2009) In contrast, portfolio investments have a short-term orientation and involve bonds and stocks bought without the intention to control a part of the enterprise.

Emerging markets become more and more attractive for portfolio investments, as they can easily be taken out of a company and the country. This form of investment occurs quite often in emerging countries, undertaken by companies from developed countries.

Although it might be favourable for investors, this mode can cause instability in the emerging country, as these markets need stable investments with a long time horizon to support growth in their economy. (Grabel 1998)

WHOLLY OWNED SUBSIDIARY

This entry mode implies the highest level of control compared to all others. (Hill, Hwang, Kim 1990) Of a wholly owned subsidiary is already spoken when the foreign equity ownership exceeds 90%. (according to the definition of a JV by the US Department of Commerce) Another possibility is a greenfield investment when a new company is established which uses its own financial and non-financial resources and is solely in charge of the losses, profits and risks. (De Keijzer 1992, Sun 1998). In this case the enterprise does not take advantage of the resources or knowledge and experience of another company or business partner to enter a market. (Sanyal 2001)

Advantages of a wholly owned subsidiary include the establishment of an enterprise according to the demand and imagination of the mother company. But this mode is valuated as the most risky strategy, partly because it requires a great amount of resources – mostly financial and also because it may most probably take a lot of time to establish a production plant, hiring of employees and gain customer contacts. Furthermore, the firm always runs the risk of being perceived as a foreign intruder in the local environment. (Rother K., 1991) All this implies less flexibility and a difficult and costly task, if the company wishes to exit a foreign market. (Hill, Hwang, Kim 1990)

Additionally, local governments often restrict foreign investment, especially 100% equity which includes wholly owned subsidiaries. (Sanyal 2001) To receive the necessary documents and approval from the local government to establish a company may – especially in developing countries – become quite complicated and take lots of time. On the other hand, motives and advantages, like being close the market and your foreign customers, are very important. (Kulhavy 1981) With a wholly owned subsidiary, a company can also avoid import restrictions likes tariffs and quotas through local production in the foreign country. (Ihringova 2001)

Other reasons for deciding to establish a wholly owned subsidiary include the scepticism against a business partner, its integrity or reliability. This furthermore implies concerns about possible future conflicts and changes in the sharing of control and resources. When the company holds critical tacit knowledge or/and valuable technologies, the mentioned points above play a serious role and the company will therefore not cooperate with a partner to reduce dissemination risks. (Sanyal 2001)

<u>MERGER</u>

In the case of a merger, a new enterprise is established by combining the assets and liabilities of two or more companies, which do not exist any longer afterwards. (Ngassam 1989) It can be distinguished between vertical mergers (the acquiring firm vertically integrates another one, for example a distributor) and horizontal mergers (horizontal integration of another firm from the same industry and production stage) and each offers distinct advantages. (Cigola 2008)

Reasons for two or more companies to merge include: economies of scale, cost reduction when the firms are operating in (approximately) the same industry with interferences within their operations, possible synergy effects and to increase effectiveness in workflows.

The preparations and set-up of a merger require a quite complicated and long process. Furthermore, the integration of the firm(s) is complex and challenging due to differences in organisational structures and the reason why many mergers fail. In the case of cross-border mergers the dimension of cultural differences additionally hinders the integration process and may serve as the basis for conflicts. (Hopkins et al. 1999, Shrivastava 1986, Shimizu 2004) If the firms differ significantly from each other, the organisation has to be restructured in terms of hierarchical structures and organizational culture. Experts state that, generally spoken, mergers and acquisitions tend to increase growth due to realisation of economies of scale as well as synergy effects and a higher level of market power. (Luo 2008)

Mostly mergers and acquisitions are the modes, watched very carefully by governmental institutions of the foreign market and are often restricted.

<u>ACQUISITION</u>

During an acquisition, one company takes over another enterprise and has now the full ownership. This form of entry mode is sometimes quite risky and chosen to quickly boost sales or/and quickly enter a foreign market. An important factor is that the acquiring and the acquired company keep their legal existence. (Ngassam 1989)

Acquisition can also take place in a joint venture, when one partner buys off its business partner(s). (Sanyal 2001)

Motives for an acquisition overlap with those for wholly owned subsidiaries or greenfield investments. These could be: concerns if the partner asks for more control, decision rights, resources and knowledge transfer in the future or if the JV partner will sell its shares to some unknown third party. As an advantage, acquisitions give the buying company the chance to enter a foreign market quickly and work within an already established network like existing customer base or distribution channels. But on the other hand, problems with the local governmental institutions may arise when acquiring another company as this may be forbidden in certain industries. (Sanyal 2001)

Further advantages include the take-over of existing market shares, which makes the quick entry into the new market possible. The company will immediately generate revenue. Production facilities, distributions channels, personnel with relevant know-how and experience are available from the beginning and constitute major advantages of this entry mode. Despite its advantages, acquisitions are clearly very risky and expensive modes. Not only does it require a high level of financial resources (even if the production does not need to be significantly adjusted) but furthermore, differences in organisational culture and management styles need to be adjusted. (Root, F. R., 1987) Organisational integration is a crucial topic in acquisitions and needs to be well planned and carefully implemented. (Larsson, Finkelstein 1999)

The line between acquisition and greenfield investment may not always be as clear as it seems. For example, a company might be acquired but will be completely remodeled from the scratch and presents a new entity instead of an acquisition. (Zentes, 1993)

3.2 Non-equity

As the name implies, in non-equity modes the business partners are not involved with an invested equity share and do not share the ownership of a joint enterprise. These foreign market entry forms are gaining importance especially in the service sector. (Erramilli 1990)

Inkpen (2000) distinguishes within non-equity modes between those with a separate enterprise and precisely defined tasks on one hand and those lacking a separate organisation and offering only laxly defined functions. Dunning (1988) defines leasing, licensing, franchising and management service contracts as non-equity modes. They all offer advantages related to their specific functions, which will be lost when the cooperation is terminated. (Wang 2006)

Non-equity modes might often be the initial steps taken, before deciding to use equity modes as strategies. Because non-equity modes involve usually less resource commitment, these strategies are less risky, especially when the company has no or little experience in the foreign target market. In addition, strategic alliances allow companies to enter into a “trial period” before making the substantial commitment of resources that mergers and acquisitions involve. Firms can utilize their partners´ established key linkages with customers, distributors, and suppliers. (Sanyal 2001, Hwang 2004)

In the evolutionary business process, firms face different needs for resources. For example, at the earlier stage, start-up firms often look for opportunities to form alliances with partners with strong social capital base (Stuart et al. 1999). As a firm evolves over time, becoming a mature company, it may need alliance partners with novel technological resources. (Hwang, Park 2006)
These modes are furthermore favourable when the economic and political environment in the market is characterised by instability. (Sanyal 2001, Hwang 2004) Firms also shift to collaborative modes when the scale of operation grows larger, either to reduce risks or to minimise management problems (Shane 1996, Gatignon, Anderson 1988)
Often, government regulations support exporting activities but try to hinder high level of foreign equity. (Sanyal 2001, Hwang 2004)

<u>EXPORTING</u>

When a company wants to expand internationally, the mode of exporting is usually the first move. Especially trading with neighbouring countries increases in the beginning. This is due to similar cultural backgrounds, market characteristics and business practices, which facilitate exporting and require only little adjustments.

In the last years, the number of so called trading blocs increased. Trading blocs are countries uniting and establishing exclusive trade agreements among each other in order to support import and export. As an example, the European Union reduced or even removed trade barriers like tariffs, quotas or non-tariff barriers, for trading within the member countries.

The motives behind exporting are overlapping with the ones of other non-equity modes. They range from utilization of first mover advantages in a foreign market over a saturated or simply small home market, favourable exchange rates and responding to competitors´ moves to lowered trade barriers.

Ideally, when the export relationship with a distributing partner is prosperous, he might become a licensee, franchisee or joint venture partner. Exporting may also occur in the form of barter and countertrade arrangements where the buying company does not pay in cash but in goods or services. These trading arrangements can be undertaken in various and complicated manners and to determine the value of the products or services for exchange is often quite difficult. (Sanyal 2001)

LICENSING

One talks about licensing when a company, called licensor, allows another one, called licensee, to use its trademark, technology and/or know-how for its business. The licensee pays in exchange a royalty to the licensor, which is commonly calculated as a percentage of the sales value. The licensor is not engaged in any further investments regarding the licensing agreement. The licensee bears the costs of the production plant, raw material and any production process related investments. All losses that can arise are the license royalties.

Through licensing a foreign market can quickly be penetrated and the business can easily be expanded in a short period of time. In countries with a high risk, this mode provides a good opportunity without extensive investments and usually no or only few governmental restrictions compared to 100% ownership modes.

In this regard, an additional motive might also be to prevent fraud by introducing a new product at the same time in the home country through 100% ownership companies and through licensing in the foreign markets. (Sanyal 2001) It does not have to be fraud, it can also be that competitors might be able to imitate the product, the technology or even enhance it. (Hill 1992)

But licensing may not create the same amount of profit as other entry modes are able to. It is the mode with the highest level of strategic flexibility but also with a high dissemination risk. The licensee might become a competitor for example. The licensor runs the risk that the given license might be misused and violate agreements, which can harm the company and cause irreversible image damage. (Hill, Kwang, Kim 1990) Critical points in the case of licensing therefore include the careful selection of a potential licensee. The existence and enforcement of intellectual property, trademarks and patents is crucial and often not given in developing countries as mentioned above.

To confine licensing from franchising it is to say that in the franchise mode the franchiser holds a much closer relationship to the franchisee than it is common in the form of licensing. The franchisor exercises more control and interference. (Sanyal 2001)

FRANCHISING

In the case of franchising, the franchiser (usually the foreign company) allows the franchisee (usually the local company/manager) to use its brand name and gives support and guidelines in the fields of marketing, technical knowledge and personnel training. In exchange, the franchisee pays royalties and mark-ups to the franchiser. The franchiser holds the overall control about general and strategic decisions but is less involved in the day-to-day business activities. (Erramilli, Agarwal, Dev 2002)

This form of entry needs a capable and trustworthy local manager, who will stand to the agreement and work according to the given guidelines. He runs the franchise business on his own and this mode is therefore critical. (Erramilli, Agarwal, Dev 2002) He is responsible for maintaining the quality level of the product or service and its image. (Sanyal 2001) Therefore, franchising becomes more attractive as the availability of managerial staff increases in the host market.

In this context, the protection of trademarks and intellectual property is very important. It is given in most developed nations but, as mentioned above, still not enforced hard enough in developing countries. (Erramilli, Agarwal, Dev 2002)

To distinguish between franchising and licensing, franchising includes usually long-term contracts while licensing has underlying short-term agreements. Furthermore, the franchising mode is common in the service industry, while licensing is used typically in the manufacturing business. One motive for franchising is the same as for exporting and licensing, namely that it offers a quite quick market entry without substantial resource commitment. Both parties carry a risk: the franchiser in the way that the product may not be successful in a market different from the home country or that the franchisee is not the ideal business partner; the franchisee in the way that he invests a lot although the product might not generate the expected profit. (Sanyal 2001) Foreign entrants seem to generally prefer franchising as the host business environment becomes more developed. (Erramilli, Agarwal, Dev 2002)

<u>MSC (Management Service Contract)</u>

In the case of a management service contracts, a foreign business partner provides management support and (technical) know-how concerning the day-to-day business and possibly also overall decisions to a local enterprise. The local company or manager holds the financial resources like capital, plant, land, office building and he pays some kind of profit shares or/and management fees to the managing company. The foreign management company will be paid in royalties, share of profits, supply-chain mark ups and management fees. As in franchising modes, a capable and trustworthy local business partner is needed. (Erramilli, Agarwal, Dev 2002, Contractor, Kundu 1998, Dunning 1988). This form of contracts is used in a wide range of service industries like restaurant and hotels, hospitals and construction, transportation or consulting. (Sanyal 2001)

Advantages of this entry mode include that the contracting company does not hold a high risk, instead high profits can be gained without major investments, while the main risk is carried by the partner company. Asian companies lack executive managers with respective knowhow and the contracting foreign managers have the chance to operate within and getting a better insight into the market without great risk. (Walldorf 1990)

<u>Contractual Joint Venture (CJV)</u>

A contractual joint venture is a co-operation similar to an equity joint venture but not based on equity shares, instead it has an underlying contractual agreement. The distribution and exercise of control as well as the profit shares are determined through negotiations and flexible in the long run. (Casson, Zheng 1992, De Keijzer 1992, Easson 1989, Plasschaert 1993, Wang, Nicholas 2005)

Furthermore the functional boundaries are loosely set in a CJV but clearly defined in EJVs. (Wang, Nicholas 2005) In contrast to equity joint ventures, contractual joint ventures offer the flexibility to establish a cooperation for only a short-time project and terminate the agreement afterwards. To establish an EJV is much more complicated and timeconsuming than starting a CJV because at first a minimum amount of financial resources has to be invested and the same money needs to be withdrawn later on. (Luo 1998, Li, Shenkar 1996, Wang 2002)

The motives for establishing a contractual joint venture are basically the same as for equity joint ventures, for example, to reduce risk of entry and of failure, to share management skills and local knowledge, enhanced bases for communicating and negotiating with local governmental institutions and access to an already established customer base or distribution network. Especially in the case of contractual JV an incentive is the possibility to cooperate with a foreign investor and gain all the mentioned advantages without the need of equity investments. (Paliwoda 1984)
In the case of a Contractual JV, renegotiable contractual points make it possible to adjust to changing market conditions. Due to flexible agreements for Contractual JVs, negotiations may become complicated and may take too much time and details can hinder an understanding between the business partners. (China 9, accessed on 27th of April 2009)

<u>P&A (Processing and Assembling Arrangement)</u>

In processing and assembling arrangements a foreign enterprise outsources a part or the whole manufacturing process to a local company, which is paid with a processing fee in return. (Fung 1997) In detail this means that the local company is only responsible for processing and assembling and the foreign company focuses on the supply and preparation of raw material as well as for the sale of the final products. (Hao 1997) Lardy (1994) states that the contract about the processing usually does not exceed 10% of the total product value. P&A arrangements often occur in so called low-tech labour-intensive industries. (Fung 1997)

Reasons for undertaking processing and assembling arrangements include the usage of cost advantages, image advantages, risk motives and avoidance of import restrictions in the foreign country. Furthermore, the company is able to quickly increase the production output in periods of stronger demand without substantial investment. An additional reason to choose P&A arrangements may be the trial of the foreign partner before starting a joint venture or undertaking an acquisition. On the other hand, through this entry mode the foreign company carries the risk of decreasing levels of quality and increasing risks of competition. The partner company may, after the contract expires, start cooperation with a competitor or become a competitor itself. (Stahr 1979)

4 Theories & models of the market entry decision process

A variety of authors and studies deal with variables, that might effect an entry mode decision. A wide range of factors was investigated in different studies, but only a few authors grouped them and developed models in order to explain the decision. These factors can mainly either be linked to the firm (competitve advantages, strategies, firm characteristica, level of control, resource commitments, bargaining power....) or to the surrounding environment (the foreign country, industry, market, regulations....). They may influence the companies or their respective managers when deciding between equity or non-equity modes, depending on whether a business partner is required and favourable or not.

The most popular theories include transaction cost perspective, eclectic theories, the contingency framework, bargaining power theory and resource based explanations.

In the 70s, Stopford and Wells (1972) were among the first to study factors they believed are influencing the entry mode decision and established a model, focusing on international experience and product diversification as primary variables. With studies in 1977, 1980 and 1988, Dunning focused on an eclectic model (OLI paradigm) based on ownership advantages, location advantages and internalization advantages.

In the 80s, Kogut and Singh (1988) added factors in order to establish their contingency framework, focused on cultural distance and uncertainty avoidance.

Gomes-Casseres (1989) and Hennart (1982), based on the transaction cost approach, studied how ownership is connected to entry mode strategies.

Two authors focused on giving rough literature reviews and overviews over the so far established transaction cost models (Anderson, Gatignon, 1986; Gatignon, Anderson, 1988)

None of the studies perfectly explains the entry mode decision process and its influencing factors. But all together the theories give a good insight into the variables and overview over the decision process of foreign entry mode decision. (Rajan, Pangarkar, 2000)

Within the next pages, the most important and common models and theories are listed and described briefly.

4.1 Transaction cost theory

Transaction cost theory states, that the decision for a foreign entry mode is mainly based on minimizing transaction costs. These costs may arise when a part of the organisational process is handed over to an external team (agent, supplier) or the other way around, some processes are being internalized again. The transaction costs include for example, the preparations and negotiations of the contract, interacting with the external employees and observation of the outsourced process (Williamson 1985, Erramilli and Rao 1993).

According to Anderson and Gatignon (1986), in this regard MNCs´ decision for an appropriate entry mode is related to the consideration of the benefits (gaining of control, higher level of control) and costs (costs of resource commitment) of internalising.

Some authors interprete this theory in the way, that in perfect market conditions suppliers deliver their products and services accurately because of high competition. In imperfect market conditions opportunistic behavior may arise and the MNC may internalise some processes in order to gain control and to avoid facing high negotiation and monitoring costs (Palenzuela, Bobillo 1999, Anderson, Coughlan 1987, Anderson, Gatignon 1986, Hennart 1989, Dwyer, Oh 1988, Klein 1989).

According to Pan and Tse (2000), the MNC will internalise those tasks, which it can perform at lower costs and will outsource or deligate when another company can perform tasks more economically. But, as mentioned above, this may involve a whole bundle of transaction costs.

Previous literature confirms the strong bearing of transaction cost related factors on the entry mode choice. These variables include proprietary nature of products and processes, external uncertainty, free-riding potential, company experience, a country´s socio-cultural distance, and scale of operation. (Zhao, Luo, Suh 2004, Gatignon, Anderson 1988)

The transaction cost approach is said to dinstinguish properly between entry modes of full control and shared control. But it is not appropriate to use it as a model for differentiating in between the individual entry modes with the different levels of control or ownership (Gatignon, Anderson 1988; Palenzuela, Bobillo 1999).

4.2 Eclectic model of international production (or OLI paradigm)

Eclectic theories (Dunning 1988, Hill, Hwang, Kim 1990, Hwang, Kim 1992) combine different explanations to a framework of various influencing factors to support and facilitate the entry mode decision process.
According to Dunning (1988), the eclectic paradigm of international production identified variables explaining foreign production and its further growth. He extended the usability of the model and defined three underlying factors which play an important role in the entry mode decision process: transaction-specific (locational) advantages, internalisation specific advantages, and ownership-specific advantages (OLI paradigm).

Hill et al. (1990) later stated that each entry mode is characterised by different levels of control, resource commitment and dissemination risk. From previous literature he draws the conclusion that three main groups of factors have a major effect on entry mode decision: 1) strategic variables, 2) environmental variables and 3) transaction variables.
Strategic variables focus on national differences, scale economies and global concentration. Environmental variables include location familiarity, demand conditions and competitive conditions. Transaction-specific variables are related to the know-how the MNC wants to transfer namely the tacit level of firm-specific know-how and the quasi-rent stream generated by the MNC´s know-how. Hill connects the three variables to the three characteristics of entry mode, stating that strategic variables influence entry mode decision through desired level of control, environmental variables through level of resource commitment and transaction-specific variables through dissemination risk.

Two years later (1992) Kim and Hwang tested a further eclectic model with the assumption that the variables influencing entry mode decision can be summarised to either global strategic variables (global concentration, global synergies, and global strategic motivations), environmental variables (host country risk, location unfamiliarity, demand uncertainty, and competition intensity) and transaction-specific variables (firm-specific know-how and tacit knowledge).

Based on the model developed by Hill, Hwang and Kim (1990), Aulakh and Kotabe (1997) combined the theories of transaction costs, strategic motives and organisational capabilities. Their study focused on explaining the level of channel integration as well as channel performance through transaction specific factors (asset specifity, external uncertainty), organizational capability factors (international experience, firm size) and strategic factors (market position strategy, global integration strategy, differentiation strategy).

4.3 Bargaining power theory

Bargaining power theory assumes that the entry mode decision is strongly influenced by the bargaining power of the entering foreign enterprise and the local government institutions. (Deng, 2003, Taylor et al. 2000)

The strengths of the foreign companies include technical know-how, a broad range of product portfolios, technologies and contribution to the foreign economy, as well as employment creation. In contrast, the local government, which holds the allowance to enter the market, is in the position to erect trade barriers or to support the entry by offering incentives and to provide support like in special economic zones, prompts access to local work force and natural resources. (Kaynak, Demirbag, Tatoglu 2007, Taylor et al. 2000)

Therefore, in high-risk countries, foreign companies will plan and arrange their market entries specifically precisely and aim for a high level of control in order to cope with the market and its challenges. (Taylor et al. 2000)

4.4 Resource based explanation

The resource based explanation traces the entry mode decision back to the existence and usage of necessary resources. (Davis, Desai, Francis, 2000) Edith Penrose (1959) calls the firm a bundle of resources which further development depends on internal and external resources. She focused her studies mainly on managerial resources, which limit a company´s expansion plans. These resources can further include for example, finances, stuff, country experience, competitive position, firm size and more. (Woodcock, Beamish, Makino 1994)

Resource based approaches suggest not to favor a full or high-equity mode in countries with high economical or political risk, because most probably the company may not have all the needed resources for the market entry. Therefore, a (local) partner would be important to share knowledge, costs and risks. (Pfeffer, Salancik 2003, Azofra, Martinez 1999, Brouthers 2002) The same accounts for countries with great cultural distance from the home market of the company, because the partner can help with product adaptions and error prevention. (Azofra, Martinez 1999, Brouthers 2002) Furthermore, culturally critical tasks can be conducted by the collaborating company. (Contractor, Kundu 1998)

4.5 Organizational capability theory

Madhok (1997, 1998) developed a theory, which focuses on the capabilities of a company (management of resources and skills) as a competitive advantage. Depending on its capabilities, the company will choose different levels of resource commitment in order to move into the market. One must take into account the different local business environment and business practices in the foreign country. This will make it difficult for the foreign enterprise to realise its competitive advantages, and therefore the firm may prefer to work together with a local business partner.

The respective factors include resource capabilities, international experience and firm size. (Madhok 1996, Johanson and Vahlne 1977, Aulakh, Kotabe 1997)

4.6 Contingency rationale

The contingency rationale states that the foreign entry mode must be chosen according to the firm´s internal resources and capabilities, strategy and environmental characteristics. (Gao 2004) The more flexibility a company has, the better it can react to a changing business environment and markets. In the worst case, it is even in the position to quickly exit the market and/or the country and hinder substantial losses.

The diagram below shows the stages of a contingency model. First, the possibilities for the company, when expanding internationally are realised. Then information research is conducted and the status of available resources is checked. In step three a decision strategy is chosen, followed by the stage where respective facts and data are collected and analysed. Finally, a mode of entry is chosen. (Kumar, Subramaniam 1997) To be able to use these advantages, a company will decide in favor of non-equity or low-equity modes for their foreign market entry. (Lawrence, Lorsch 1967, Quer et al. 2007)

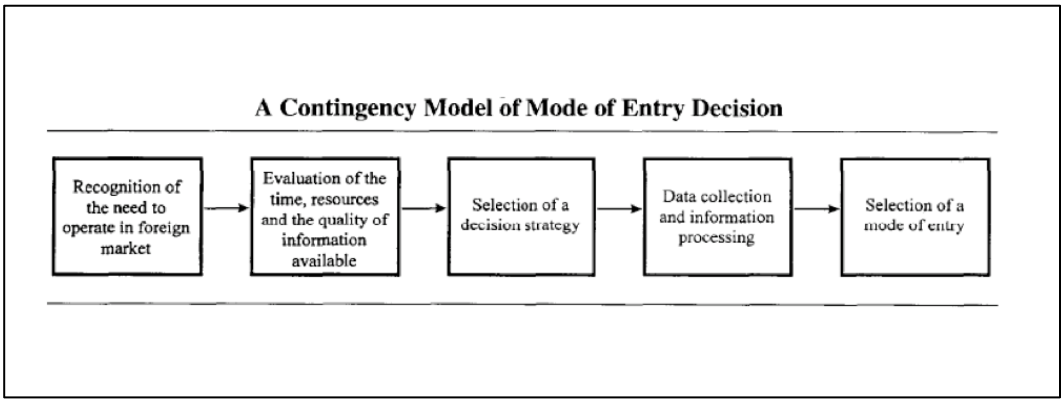

Figure 3: A contingency model of the entry mode decision (Kumar, Subramaniam 1997)

The figure below shows the traditional model of the entry mode decision. Each of the theories above originally focused on a specific range of factors. The later studies tried to combine the different traditional models in order to explain the entry mode decision.

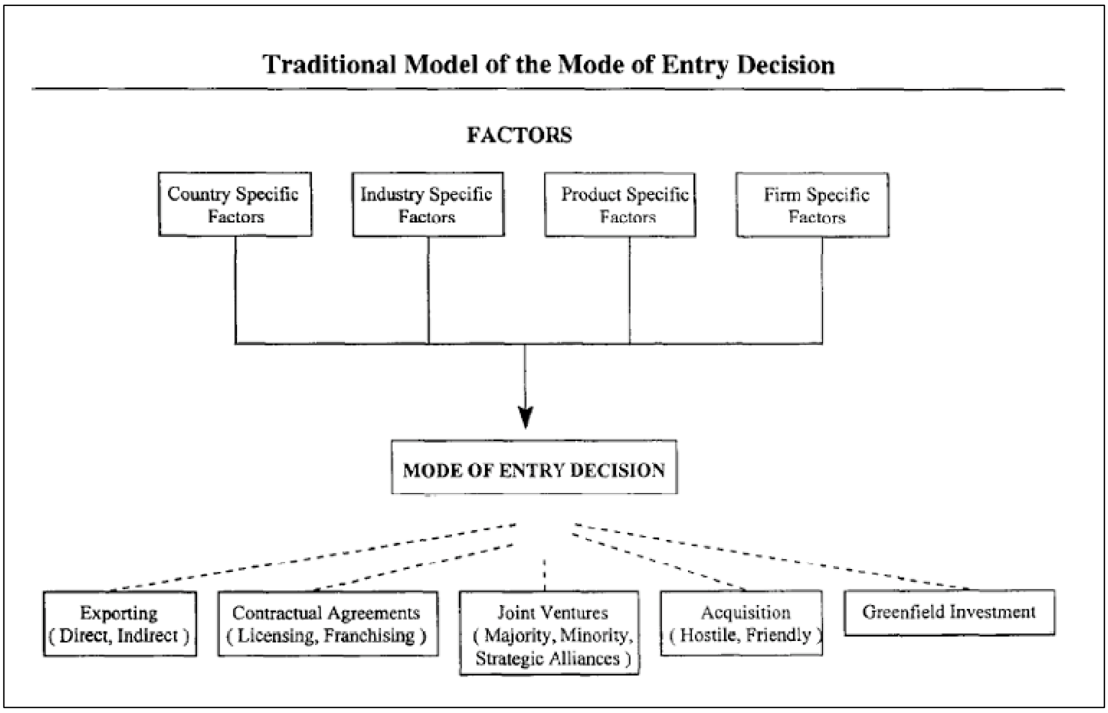

Figure 4: A traditional model of the mode of entry decision (Kumar, Subramaniam 1997)

An important point for distinction is, that the majority of the studies try to proof the significant influence of factors in the decision between the individual entry mode strategies. If research was undertaken focusing on factors to distinguish between equity and non-equity modes, often only one single strategy for each mode was used as an example. In the study undertaken within this thesis, nearly all possible entry modes were taken and grouped to equity or non-equity modes.

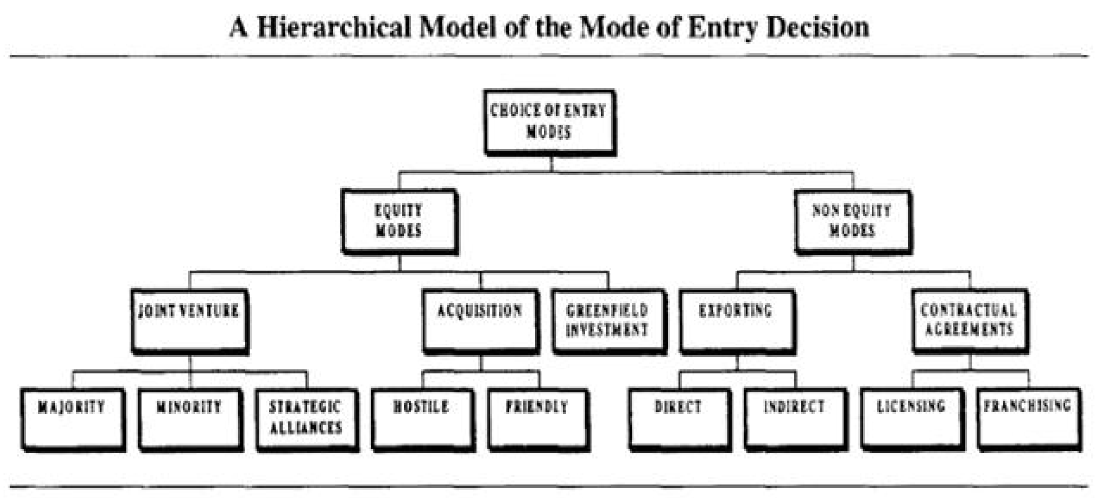

Figure 5: A hierarchical model of the mode of entry decision (Kumar, Subramaniam 1997)

Above an example of a hierarchical model can be seen.
I share the opinion that most likely managers undergo a hierarchical decision process and that the factors differ, which influence the decision between equity and non-equity modes and between the individual entry mode strategies. (Root 1994)

5 Factors influencing foreign ownership

It is clear that not only one single factor influences the entry mode decision process and leads to the determination of an entry strategy. During the decision process many variables come together and each posseses a different level of importance. Several studies deal with the question „Which internal or external factors affect the entry mode decision of MNCs?“.

External factors may influence the decision in the following way: in most cases it is much easier for companies to enter neighbouring countries with similar characteristics like their home market. Great distance, geographically and in the sense of cultural differences may influence the decisions in favor of certain entry modes. These distant countries may also lack a certain level of infrastructure, which implies, for example, high transport costs and risks. The level of education and training of the local labor force also plays a crucial role, because it may require high trainings costs and certain equity modes may therefore be extremly unappropriate.
Furthermore, higher levels of political, legal and economical risks affect the entry mode decision just like legal or formal regulations and restrictions. The size and growth potential of the market as well as the competitive situation will have further influence.

Additional factors include internal characteristics of the company, like level of financial resources, targets, willingness to take risks, experience abroad, size of the company and relation to competitors. Characteristica of the products, like level of technology used or level of necessary adaption, expected acceptance in the foreign market and stage of the product life cycle in the foreign country, also play a role.

For the study within this thesis, mainly the transaction cost approach was used as a basis for the grouping of variables: firm-specific, country-specific, and market-specific variables and combined them with non-transaction cost variables.

From the study of Chen and Mujtaba (2007), the majority of the variables was applied:
Firm-specific factors (*asset specificity*, international experience, and firms size),
Country specific factors (country risk, government restrictions, and cultural distance)
Market-specific factors (market potential, *demand uncertainty*, and competitive intensity)

The variables asset specificity and demand uncertainty were not included, yet economies of scope (Gaba et al. 2002) and product characteristics were added to the firm-specific factors (Gao 2004).

The following groups were used with the respective factors:

Firm specific factors

Firm size

Big companies which make their move into a foreign market early, have the chance to develop significant barriers for following companies, like complicate not only the search for suppliers, but also the move into the market, gaining customers and more. (Kobrin 1991, Lieberman, Montgomery 1998) The size of the firm is a crucial ownership advantage, as greater companies usually possess a greater amount of financial resources for investments, which helps them to expand their operations and makes it easier to absorb especially the financial risk (Cohen 2008), but also to reduce the risk to fail in the market through a broader product portfolio (Chang 1995). They further tend to have greater managerial resources, which might not only be an advantage in daily operational business, but especially when considering setting up a wholly owned subsidiary. (Tallman, Fladmoe-Lindquist 2002, Quer, Claver, Rienda 2007) For bigger firms it might as well be easier to put pressure on local institutions and the host country government, in order to remove possible entry barriers. (Brewer 1993, Pan 1996, Gaba et al. 2002)

Timing of market entry

First movers, early followers and companies entering the market rather late, use very different entering strategies and also perform differently. (Lambkin 1988) The timing to enter a market is, according to Porter (1991) strongly connected to signals the market it sending, possibilities in the foreign market and how the company is able to read, interpret and react on this information.

Timing of entry, strategy and performance are interrelated in the sense, that pioneers gain larger shares of the foreign market and make more profit. (Kerin et al. 1992, Lilien, Yoon 1990) On the other hand, companies entering the market at a later point of time, will save on innovation costs, do not need to educate their customers anymore as similar products might be on the market already, can copy production processes and need generally less investment. (Kerin et al. 1992)

According to Liebermann and Montgomery (1998), the host country risk and the growth potential of the foreign market are closely related to the timing of market entry. It is stated in previous studies, for example, firm size, internationalisation and economies of scope are influencing the decision of timing the market entry. Bigger companies which are present in a great number of countries with a higher level of economies of scope are connected to early market entry. Additionally, companies who enter a market early tend to choose a non-equity mode as their entry strategy. (Gaba, Pan, Ungson 2002)

International experience

Companies´ past international experience is found to increase the number of foreign operations in the future. It can be measured by the international presence of the company in different foreign markets. The higher their engagement in the global market, the more learning possibilities and learning effects occur from the experience and the established network abroad, which often leads to willingness to take greater risks and use equity entry modes. (Gaba et al. 2002, Sullivan 1994)

Economies of scope

Companies with a wider range of its product portfolio have an increased chance to survive in the market, as the possibility to meet customer demands and desires is much greater and reduces the risk involved with the entry. Furthermore, due to synergy effects between the product sectors, the product development, production and distribution process might gain on efficiency and quality (Shaver et al. 1997, Lambkin 1988, Green et al. 1995, Gaba et al. 2002, Chang 1995)

Standardisation of products

The standardisation approach focuses on the influence of the standardisation strategy on the performance of a company. This strategy includes the standardisation of products and their respective marketing tools as promotion standardisation, standardised channel structure, and a standardised price. Zou and Cavusgil proved the influence of product adaption on a firm´s performance in the market within their study in 2002. For this study, a scale for the standardisation of the offered products from Zou and Cavusgil (2002) is used, as product standardisation was also investigated being related to entry mode decision by Kumar and Subramaniam (1997).

Resource commitment

Every market entry requires a certain substance of resources to be committed. The risk of the operation increases with a higher level of resource commitment, because the company looses its flexibility with a greater amount of committed resources and becomes more vulnerable. (Ghemawat 1991)
Some earlier studies show that companies tend to opt for lower equity modes when the market entry requires a high amount of financial resources. Although it could be assumed that with higher financial investments, the company chooses high equity modes in order to protect the capital and retain control.

Knowledge about the target market

Information is a very critical factor in the entry mode decision process. A high level of knowledge about the target country is important to accurately assess crucial factors related to the market entry as risk, costs, market potential, and so on. Companies who did not inform themselves properly and over a longer period of time about the host country, will keep their resource commitment at a low level and choose non or low-equity modes as their entry strategy. (Randoy, Dibrell 2002).

Market related factors

Competition intensity

Competitors are always monitoring each other and often using the moves of other companies as implications for their own strategies. This is especially true with foreign market entries. (Chen, Mujtaba 2007) The behavior of competitors, like the entry into a foreign market by several firms, might be interpreted as a profitable strategy, one also needs to follow in order to gain from the opportunity before it is gone. Furthermore, there always exists the threat that companies who entered the market will set up barriers for following competitors to enter, find suppliers, attract customers and more. (Porter 1991)
According to Gaba et al. (2002) as well as Knickerbocker (1973) companies will therefore try to enter early, when signs tell that competition is on the way.

Another approach in this regard is foreign direct investment concentration. More foreign competition in the market implies a higher FDI concentration. This might result from less entry barriers, a stable economic and political environment, well educated employees and more. (Kaynak, Demirbag, Tatoglu 2007)

Different assumptions can be drawn in the way that with more competition the company will need to commit more resources to enter and operate in the new market. As some studies reveal, that companies will choose high equity modes with more competition, others showed low equity modes would be preferred. (Chen, Mujtaba 2007)

Market growth

Market entry decisions are closely related to the potential and current growth, as well as the size of the target market. (Green et al. 1995, Taylor et al. 1998, Chen, Mujtaba 2007) Companies tend to invest in high potential markets early and with high resource commitments. Which means, they tend to choose high equity modes in order to lower production costs due to the use of economies of scale. (Agarwal, Ramaswami, 1992)

Host Country Factors

Host country risk

The risk when investing in a foreign market can be of economical, legal or political nature. The economic and political status of the country might not be stable and the legal system might not be regulated properly. (Brewer 1993) This level of risk related to the investment shows how the framework for operating in this country is set up and this of course affects the choice of the market entry strategy. (Brouthers, Brouthers, Werner 2000, Zhao, Hsu 2007)

Several studies indicate, that the higher the host countrys´ risk or uncertainty, the more companies will try to reduce the resource commitment towards the target market, which means the tendency will show the favor of non-equity modes. (Quer, Claver, Rienda 2007)

Cultural distance

The term cultural distance is often used in studies related to international business when the cultural origin of the headquarter and of the target market are quite different from each other. These differences steam from the different cultural roots and have strong influence on business behavior or customs, the economic and political environment as well as the social manners and social life. (Taylor et al. 2000, Chen, Mujtaba 2007)

Hofstede undertook a very well known exploratory study, which was used many times in international literature and research. But in recent years, it came under criticism because it is already quite old and might be outdated.

Prior research suggests, that as risk increases in culturally distant countries, companies will decide in favor of low equity modes. (Kaynak, Demirbag, Tatoglu 2007) Other approaches argue contrary that with high cultural distance also high-equity modes will be chosen, as finding the right partner in the host country becomes quite difficult and training him will be expensive and difficult as well. (Contractor, Kundu 1998, Quer, Claver, Rienda 2007)

Regulation

Regulations for the business environment including also barriers for market entries, differ from country to country due to the economic development and status of the target market and the political system in the target country. These legal restrictions have, of course, great impact on the decision of a company for their entry strategy, as these regulations may force foreign firms to enter the market with the entry mode suggested by regulations. They may occur in the form of equity limits, excessive money or goods exchange control or local production requirement. (Taylor et al. 2000)

Within the study undertaken by the World Bank in 2004, countries were classified according to two measures: the number of procedures required for entrepreneurs to start a new business and the average number of days required for an entrepreneurial license and to launch a new business. (Puia, Minnis 2007)

High legal restrictions are said to decrease innovation and entrepreneurship in the market. (Hall, Soskice 2001). Within their studies, Barro (1999), Berggren (2003) and Gwatney (1999) even state, that economic growth is positively related to democracy and economic freedom.

Target industry

Prior research showed that companies choose their entry mode strategies depending on which industry sector they are operating in. The strategical needs and necessary steps in order to be successful differ significantly from branch to branch. Studies suggest furthermore that firms operating in the manufacturing sector choose higher equity modes much more often than firms from the service sector. (Quer, Claver, Rienda 2007) The industry sectors in this study were classified according to the 3-digit international SIC (ISIC) codes of United Nations Industrial Development Organization (UNIDO).

An additional amount of factors is proven to be significantly important and influence the choice of entry strategy. Following, a few are named and the most common and frequently mentioned ones are shortly explained.

Natural resource intensity of target industry

Foreign companies which are operating in resource intensive industries often face high entry barriers and limits to hold permits for access to local resources, as these sectors are often politically crucial. Therefore prior studies suggest a shared equity mode in order to have a local partner who can deal with the governmental institutions and get the required permits, as local firms will not face as many restrictions as foreign companies. (Kaynak, Demirbag, Tatoglu 2007)

Asset specificity (firm-specific factor)

Asset specificity names the specialisation of technical processes, technology, expertise and investment for a specific transaction. This increases the occurence of opportunism by a partnering firm. Therefore, companies with higher asset specificity will choose higher equity modes/higher control modes in order to lower investment risk as well as opportunistic behaviour. (Chen, Mujtaba 2007)

Demand uncertainty (market-specific factor)

When the demand is uncertain to a very high extent in the target market, transaction costs increase because it will be much more difficult to establish contractual relationships when the numbers are unknown or changing constantly and regular control needs to be excercised in order to react quickly to changing demand. Studies show that companies tend then to choose high control/equity modes. (Chen, Mujtaba 2007)

Further variables include, for example, strategic ones: economies of scale, global concentration and global synergies and relational factors like trust and relationships between the entering company and the foreign partner (Gao 2004).

6 The study

Via a study consisting of Austrian companies, operating in the Indian market, I tried to find proof for the relations between prior defined factors and the chosen respective market entry mode. In other words, I was looking for determinants, which influence the decision process in favor of an entry mode. Existing studies were mostly undertaken in developed markets and not in developing countries. Therefore, I decided to proceed with a study within one of the most important emerging markets, namely India. As I was currently working in Bangalore I started my research from there.

6.1 Methodology

I started the preparations for the study by browsing through the internet to find Austrian companies with business relations in India. For this country, no European (or Austrian) company directory exists and the Austrian Chamber of Commerce (WKO) did not give access to the respective data (neither in Vienna nor in New Delhi) due to their responsibility of data protection.

About 500 Austrian companies are currently undertaking business within the Indian market according to Mag. Hofstadler (Austrian Deputy Trade Commissioner in New Delhi in 2008). To my impression, after undertaking intensive research, this number seems quite high for such as small country like Austria. It might be due to the fact that this number includes companies which were/are only actively handling one single business deal or project and are not present within the Indian market regularly and/or for a longer period of time.

I was able to identify 121 companies with business relations in India. Three firms were only networking in India so far and want to start business soon, but did not decide about their final entry mode. One company had to undergo insolvency proceedings and eleven firms stated not to fill out any questionnaires according to their company policy. Finally, 106 companies agreed to complete the online questionnaire. After the first mailing, 56 questionnaires were filled out and saved online. As response to the reminder sent out, an additional six firms completed the questionnaire. In total 62 questionnaires were submitted. Of these, five companies stated to have faced legal restrictions, influencing their entry mode decision. These questionnaires had to be taken out. A total of 57 questionnaires remained for the study.

The data were entered into SPSS and as a first step averages were calculated and the measures were grouped to variables. Subsequently I produced descriptive statistics and diagrams for better illustration (see chapter 6.3 Descriptive statistics).
Afterwards, the data was analysed in order to prove or disprove the prior defined hypothesizes. The results are documented in chapter 6.4 and interpreted in chapter 7.

6.2 Hypothesis

6.2.1 Firm-related factors

FIRM SIZE

The bigger the company, the more likely high equity modes like mergers and acquisitions are chosen, because greater firms can commit more resources, have a greater bargaining power and are able to exercise a higher level of control. (Erramilli, Rao 1993, Tylor, Zou, Osland 1998)

H1) Bigger companies have better access to various kinds of resources and will therefore prefer high equity modes over non-equity modes in order to be in control.

TIMING OF MARKET ENTRY

In the beginning, only little was generally known about India - the country and the market. By now, a lot of data from market research and case-studies exist as well as institutions which support companies when entering the market. (Gaba, Pan, Ungson 2002)

H2) Companies, which enter a market earlier, face a higher risk and are only willing to take less resource commitment. So firms who entered India earlier most likely chose non-equity modes, while companies entering the market later are more willing to decide in favour of equity modes.

INTERNATIONAL EXPERIENCE

Companies with a higher international experience and knowledge about different kinds of markets are more likely to merge or take high equity modes. (Phatak et al. 1996)

H3) Companies with only little international experience will try to keep the resource commitment and their risk low and choose a non-equity strategy.

MARKET/COUNTRY KNOWLEDGE

According to Randoy and Dibrell (2002), when firms know less about the country they are planning to enter, it is more difficult for them to adapt and their costs will increase. Therefore, companies will choose lower resource commitment in case they do not have sufficient information about a new market.

H4) Companies with higher knowledge about the country and the market before the entry are more likely to choose equity modes over non-equity modes.

PRODUCT PORTFOLIO

A company with a broader product portfolio has a higher chance that one of its products will be adequate for the new market and sell, than a company primarily relying on one main product. (Kerin et al. 1992)

H5) Therefore the risk of selling when a firm offers several products is less and it will choose equity modes more often than firms relying on only one or two products.

STANDARDISATION OF PRODUCTS

Companies, selling products where features need to be adapted to every country, need higher investments then companies dealing with products that are highly standardised across countries. Subramaniam and Kumar (1997) found proof for a relation between the standardisation level of products and entry mode decision. Gattignon and Anderson (1988) in general came to the result that firms prefer lower equity modes when the market entry involves higher financial resource commitment.

H6) Therefore, firms selling products which need to be modified will prefer non-equity modes or very low-equity modes in order to reduce their risk and to lower their costs.

RESOURCE COMMITMENT

Resource commitment includes mainly financial resources and personal. Greater access to resources facilitates the establishment of wholly owned subsidiaries. (Tallman, Fladmoe-Lindquist 2002) Anderson and Gatignon (1986) state that equity modes require significantly high resource commitment in comparison to non-equity modes, not only due to monetary investments, but also because these firms constantly have to be in contact and negotiate with local parties like governmental institutions.

H7) Generally spoken, if the company is able and willing to invest on a high level, it will choose equity modes over non- or low-equity modes.

6.2.2 Market-related factors

COMPETITION INTENSITY

According to a study by Chen and Mujtaba (2007), companies prefer high equity modes in markets with a lot of competition.

But other research literature shows that in countries with higher competition intensity, companies choose low equity modes with lower investments necessary because those markets might not be that profitable.

H8) When the market is full of competitors, companies need a partner to be strong enough to enter this market. In competition intense industries, conditions can change quickly and in order to deal with this, companies prefer higher equity especially when they work with a partner.

MARKET SIZE

Agarwal and Ramaswami (1993) state that in high potential markets, companies set up wholly owned subsidiaries, to reduce costs through economies of scale. Taylor et al. (1998) suppose basically the same, using the TCE perspective. He states furthermore, that a high control mode would lower the risk of shirking.

H9) In markets with high and still increasing growth, companies are more likely to take higher control and choose higher equity modes, even set up mergers or aquisitions.

6.2.3 Host-country related factors

HOST COUNTRY RISK

In previous studies, it was stated that when the risk of the host country is high, companies need a partner in order to gain access to resources, contacts to the local government and prefer lower equity modes to control costs. (Pfeffer, Salancik 1978) Also a reason why firms should choose lower equity modes is the flexible position they should attain in order to respond to a changing environment. (Lawrence, Lorsch 1967) I suppose that these companies might prefer non-equity modes in order to exit the market quicker and with minor losses in case of failure or when the environment becomes too unstable and operations too risky.

H10) If a company is entering a country with a high overall risk, it will try to reduce the risk by taking lower resource commitment and therefore chooses non-equity modes.

CULTURAL DISTANCE

When companies are entering a country with a great cultural distance to their home country, they need a partner to help them understand the foreign market better. They need support, especially when it comes to the right business behaviour, business customs, be sensitive for the cultural differences and they might also need to modify the products´ features to the new market. (Azofra, Martinez, 1999, Chen, Hu 2002)

Some researchers received the results that firms will opt for high equity modes, even mergers and aquisitions when the cultural distance is high because it might be difficult to find the right partner in this country. Furthermore when companies from very different cultures work together this will increase costs. (Contractor, Kundu 1998)

H11) I suppose in countries with greater cultural distance, companies tend to choose low equity modes or non-equity modes because business becomes more complicated and risky and they want to stay flexible and invest only a minimum in the beginning.

LAW ENFORCEMENT

Pan (1996) suggests that in countries with high law enforcement the government protects the local companies, which empowers the local firms´ bargaining power. This will lead foreign companies to choose lower equity modes or the local firms furthermore, may force foreign companies to decide for lower equity modes.

H12) If the regulations for market entry are high, a partner is needed to communicate with the government and related institutions. But to lower the risk, low-equity modes in collaborations are chosen.

HYPOTHESIS MATRIX

Factors investigated	Equity
F - International Experience	-
F - Knowledge market / country	+
F - Standardization of products	+
F – Product Portfolio	+
F - Resource commitment	+
F - Firm size	+
F - Early market entry/Timing	-
H - Host country risk	-
H- Cultural distance	-
H - Law enforcement/Regulation	+
I – Competition	+
I - Market size	+
I - Industry sector	

Table 1: Overview of investigated factors and their assumed relation to level of equity

6.3 Descriptive Statistics

The companies are operating in the following industries, shown in the graph below. The majority (close to 50%) handles their business within the industrial machinery and equipment sectore. With great distance further industries follow, like instruments and related products as well as electronic and other electrical equipment and additionally fabricated metal products and rubber and miscellanous plastics products. The remaining 14% are scattered around 11 different industry sectors.

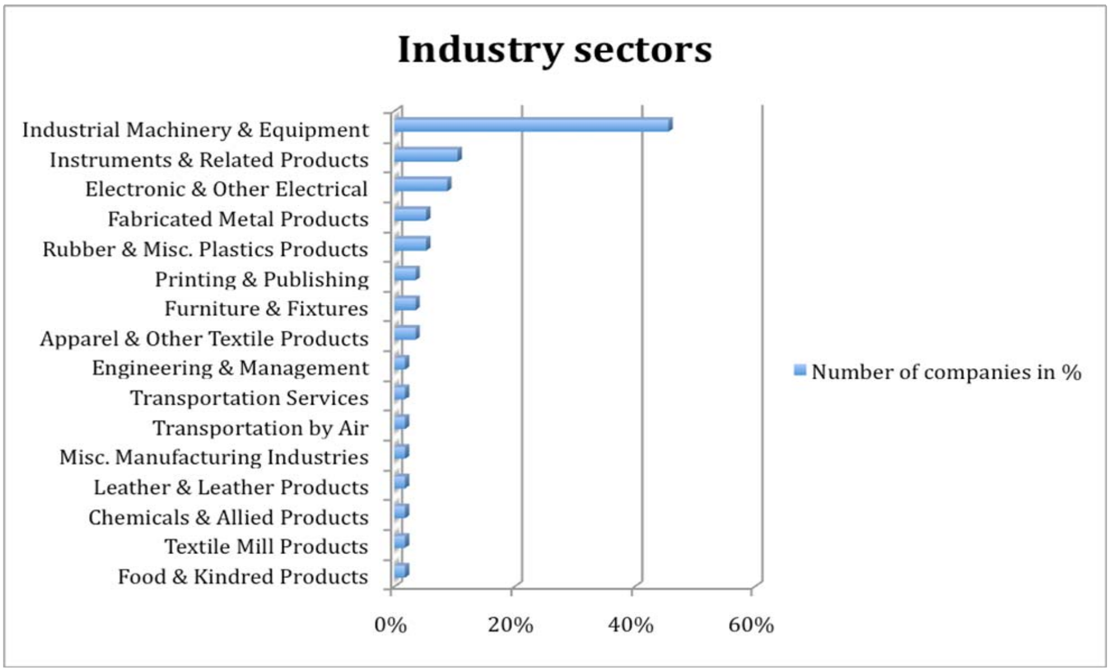

Figure 6: Number of companies divided by Industry sectors

It needs to be mentioned, that out of the remaining 57 companies, seven (*12%*) used solely equity entry modes, 34 (*60%*) used non-equity modes and 16 (*28%*) rather used equity and non-equity modes parallel (later referred as combined or mixed modes) for their entry into the Indian market. From these results, the assumption can be drawn that in this case combined or mixed modes are more popular than pure equity modes. This is intersting and surprising because the literature does not deal in depth with cases of parallel used strategies.

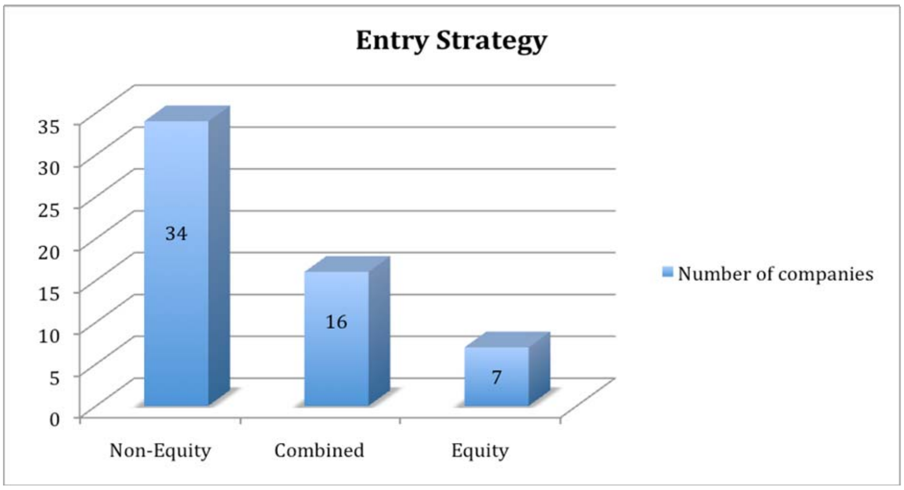

Figure 7: Number of companies divided by their chosen entry strategy

Counted in total (inlcuding the strategies which were used in decisions of combined modes), non-equity entry modes were chosen 59 times and equity modes 24 times. This further confirms the conclusion that non-equity entry modes are clearly preferred over equity modes to a great extent as we saw already in figure 7 above.

If the strategies are split up into the single related entry modes, one can clearly see that exporting is the most favored entry mode. According to the Ministry for Economics, Youth and Family in Austria, out of the 500 Austrian companies involved in business with India, about 60 have a joint venture partner and 100 collaborate throuth a form of licensing. (Federal Ministry of Economy, Family and Youth, accessed on 10th of June 2009)

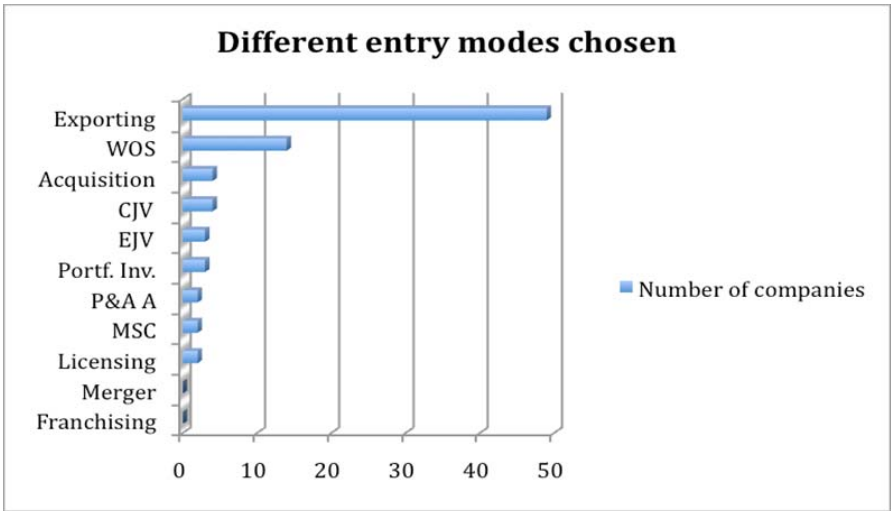

Figure 8: How often a particular entry mode was chosen by Austrian companies (multiple choice answers)

As we can see from the figure below, the most important motive for the companies to decide in favor of a specific strategy is to increase their profit. Further reasons are: to retain flexibility (with the help of a partner), to combine strengths and to share costs (by splitting them with a local partner), to minimise transaction costs (when cooperating with a partner), to learn and to share risks and benefit from economies of scale.

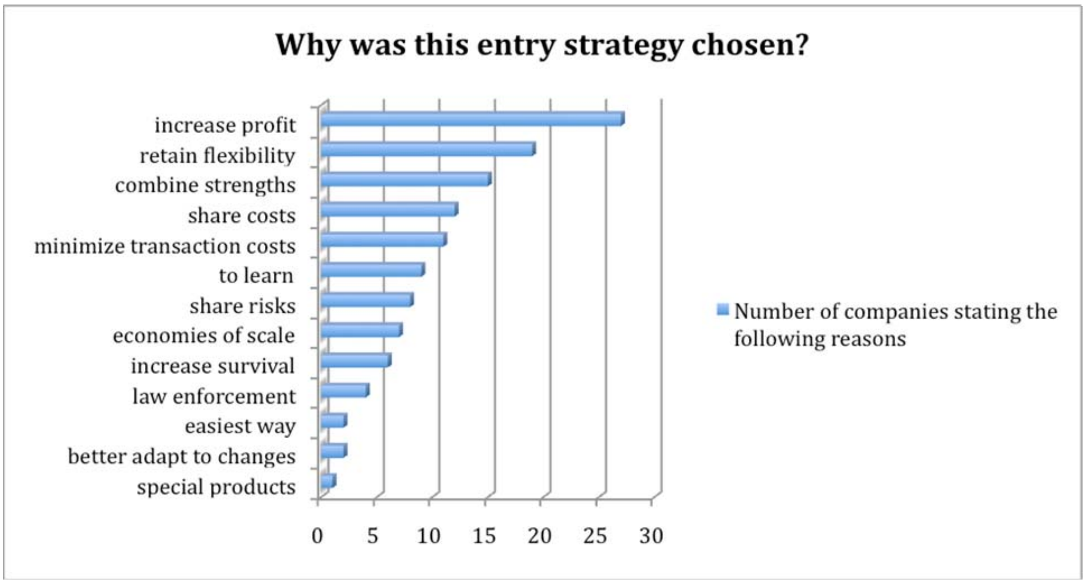

Figure 9: Why companies decide in favor of a market entry strategy (multiple choice)

The graph below shows the indicated reasons for chosing in favor of equity, non-equity or mixed strategies. Some of the answers seem to be untypical, especially for the equity modes. This is due to the fact, that in case of equity joint ventures reasons like, to share costs, combine strengths or to learn, may play a role but would maybe not be considered in full equity modes like acquisition or merger. Clear differences can be seen as in the case of equity modes, sharing risk is no motivation but it is for mixed and non-equity modes.

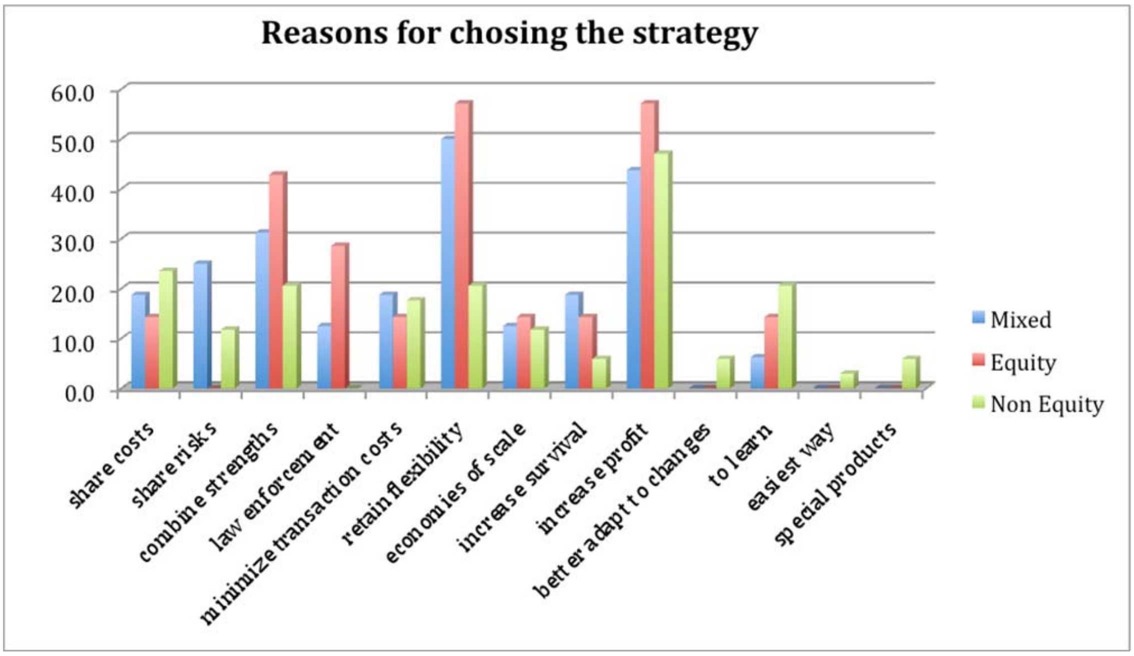

Figure 10: Reasons for deciding in favor of an entry strategy (split up by strategies)

The following reasons play obviously little to no role for equity and mixed modes but (only minor) for non-equity modes: better adapt to changes, easiest way and special products. The legal circumstances are clearly a great influence in the case of equity modes, which surprises because usually equity modes are especially restricted and companies would decide in favor of non-equity modes then. The three strategies do not differ much regarding the remaining reasons. Again, it can be seen very clearly that to increase profit is a very important factor for all three modes.

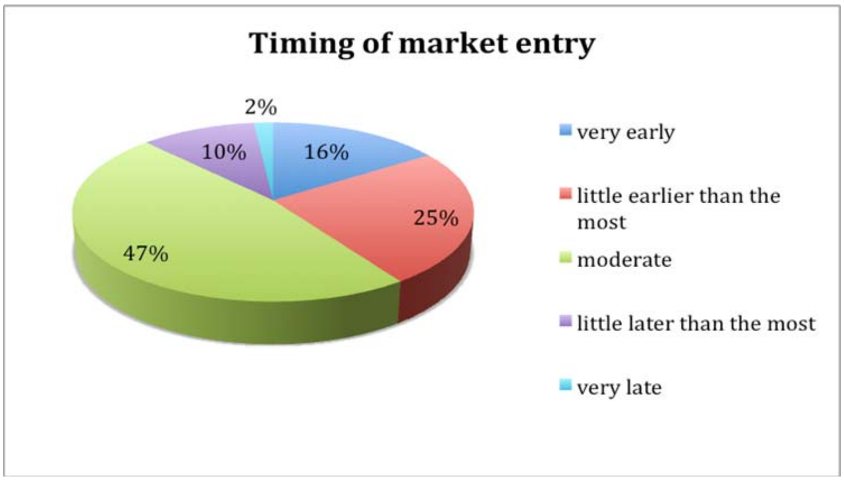

Figure 11: Perceived timing of market entry compared to competitors (given as percentage)

Interesting is the fact, that 41 % of the firms believe to have entered the market little earlier or very early compared to their competitors. 47 % see their entry as moderate and only 12% state that their company was later than the most or even very late when they entered the market.

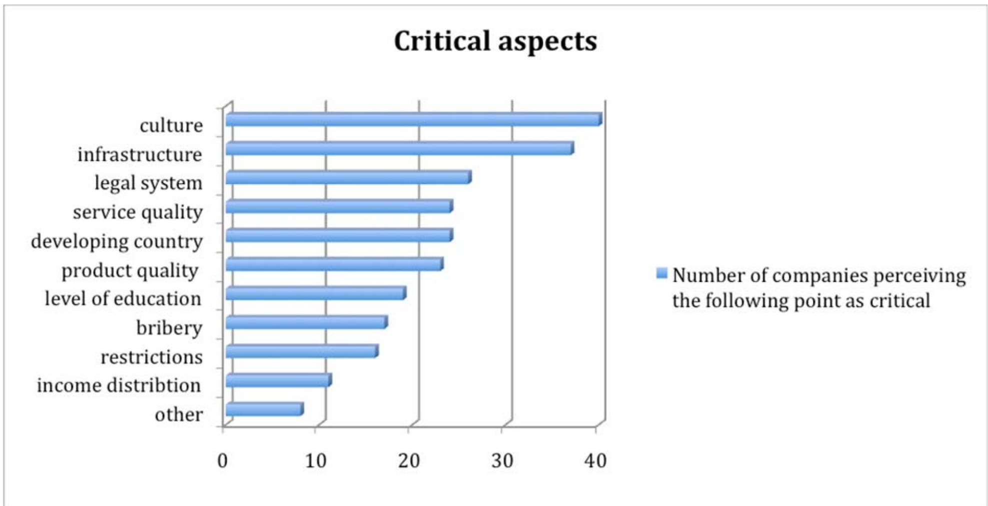

Figure 12: Number of companies stating critical points for a market entry to India

The question „What are the most critical points when entering the Indian market?“ was answered by most of the companies with cultural differences, infrastructure, legal system, level of service quality, status of a developing country, product quality, level of education and bribery.

Supporting this, nearly 50% of the companies rate the differences in culture between Austria and India as high and even about 85% perceive them as high to very high. The following graph shows the perceived differences between Austrian and Indian culture. The results show very clearly that the two countries differ significantly in their cultural behaviour.

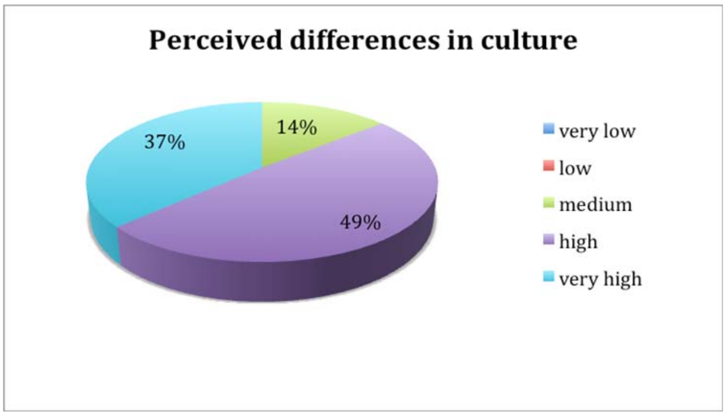

Figure 13: Perceived cultural difference between Austria and India (given as percentage)

The next diagramm draws the perceived differences between Austrian and Indian business behaviour.

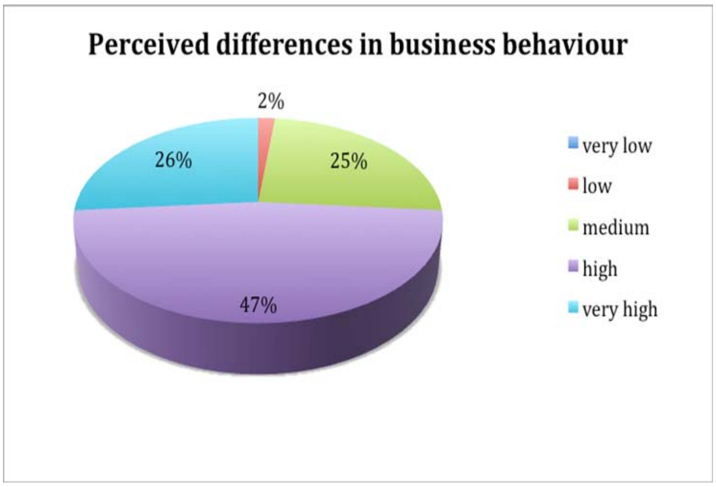

Figure 14: Perceived difference in business behaviour between Austria and India (given as percentage)

Obviously, companies face great differences in business practices, which 73% of the firms state (high to very high differences). 25% perceive differences as medium and 2% as low. The different cultural background has significant influence on the business culture and behaviour within an organisation. This furthermore constiutes a major obstacle in operating in the market and, of course, in the crucial process of entering such a market. It complicates the most simple procedures and may lead to a chain of misunderstandings. Therefore, awareness and countersteering are crucial and important factors for success.

The majority of firms estimates the overall risk companies face, when undertaking business in India, with medium (51%), 28% with very low to low and only 21% with high. Nobody perceived the risk as very high.

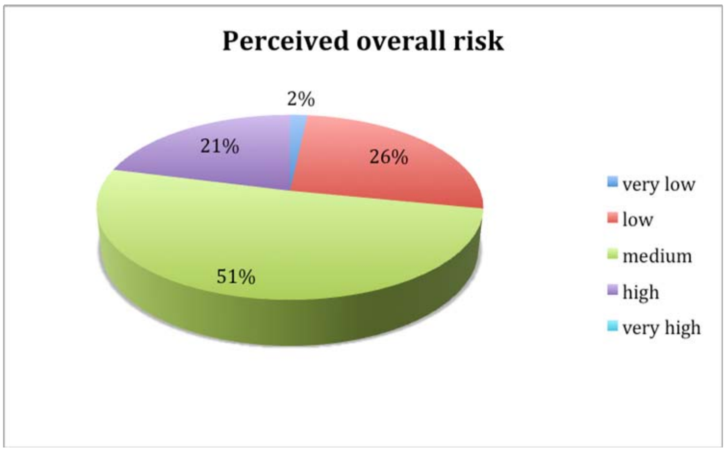

Figure 15: Perceived level of risk in business in India
(given as percentage)

The country got an A3 risk rating (India Country Risk Assessment 2005, COFACE) which states, that India is somehow unsteady politically as well as economically, which can cause insecurities or changes in payment behaviour, as well as create difficulties in business operations for some firms. (COFACE Country Risk and Economic Studies Department, accessed on 5th of May 2009)

The question why the companies entered the Indian market, was answered by most with: demand for their products and services existed in the country, the growing market, the huge market, the high growth rate, their strategy to expand the market and that India offered and still offers high potential for business opportunities in a wide range of industries.

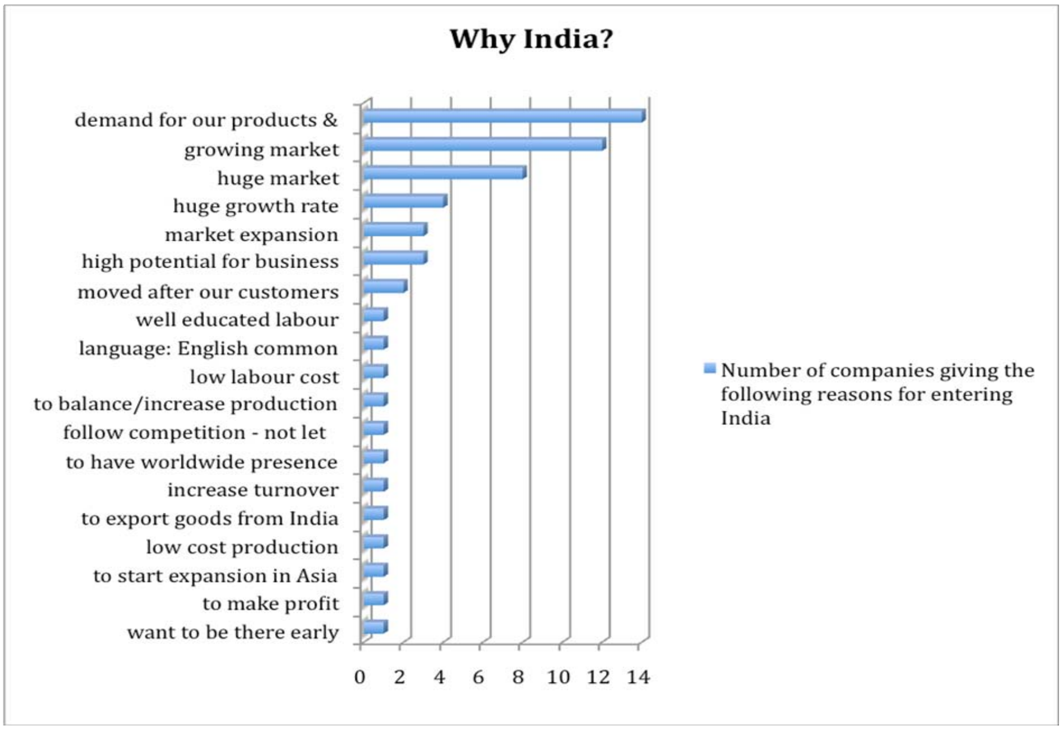

Figure 16: Number of companies marking their reasons for entering India

Not very surprisingly, the fast majority (84%) of the companies communicated to have chosen the right entry strategy. But 16% were not sure and clearly stated that not the right decision was made, implying that they would choose a different mode if they could make the decision again.

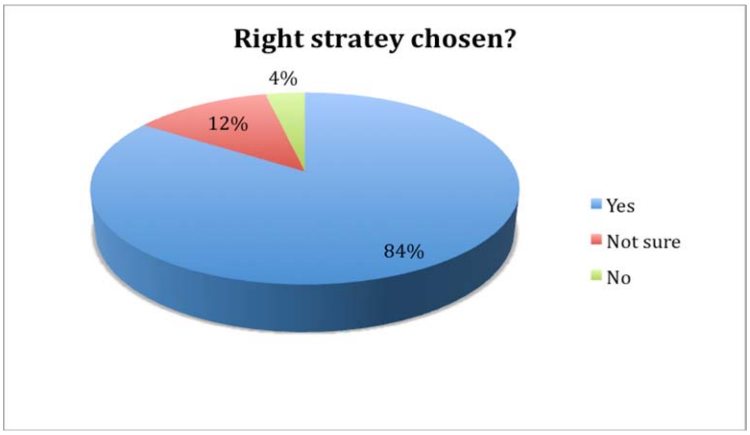

Figure 17: Number of companies stating if the right strategy was chosen

6.4 Results

The single measurements were grouped together to the following new variables in order to proof or disprove the hypothesis, the relations and influences:

<u>Firm-related factors:</u>

Firm size, timing of market entry, international experience, market/country knowledge, product portfolio, standardisation of products, resource commitment

<u>Markt-related factors:</u>

Competiton intensity, market size

<u>Host-country-related factors:</u>

Host country risk, cultural distance, law enforcement

With Cronbach´s Alpha, the reliability of each variable, consisting of more than one measure, was tested within an inter-item correlation analysis. The acceptable limiting value for Alpha, according to Nunally´s rule of thumb (1978), lies at a minimum of 0.70. Chen and Mujtaba (2007) stated that values of 0.50 or 0.60 are high enough for measuring the hypothesized variables of a model.
All tested variables had a value above 0.50/0.60, besides the variables regulation and standarization of products which both reached an Alpha of only 0.45. Furthermore, the scale for the variable country risk had to be narrowed down to two values in order to achieve the highest alpha. The detailed tables of the analysis can be found in the appendix (appendix A).

Following, it was also investigated if the variables distinguish significantly between the strategies, non-equity, equity and mixed modes. First, I calculated ANOVA (analysis of variance) contrasts, below we can see the respective diagrams which make it easier to get an overview over the results.

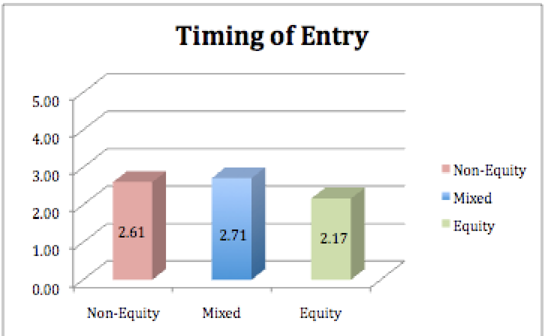

Figure 18: ANOVA Contrasts for the variable Timing of Entry (split up by strategies)

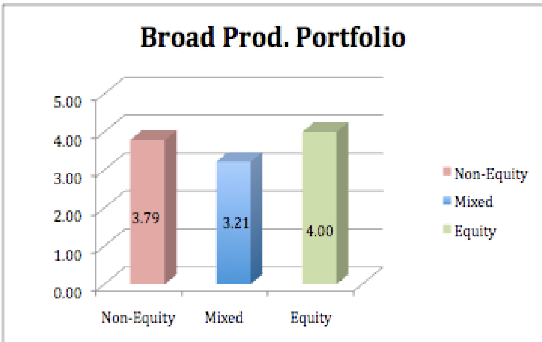

Figure 19: ANOVA Contrasts for the variable Prod. Portfolio (split up by strategies)

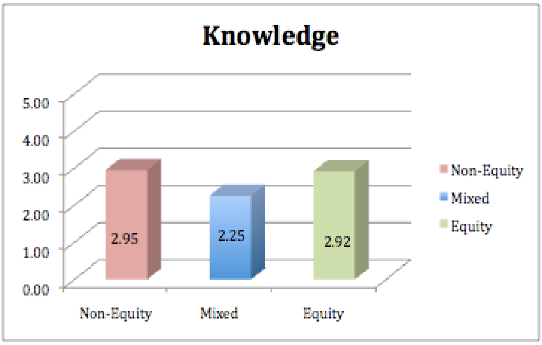

Figure 20: ANOVA Contrasts fort the variable Market/Country Knowledge (split up by strategies)

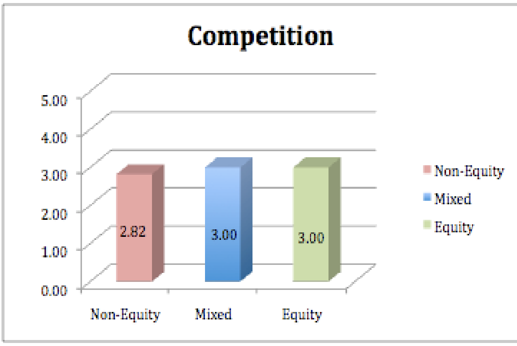

Figure 21: ANOVA Contrasts for the variable Competition (split up by strategies)

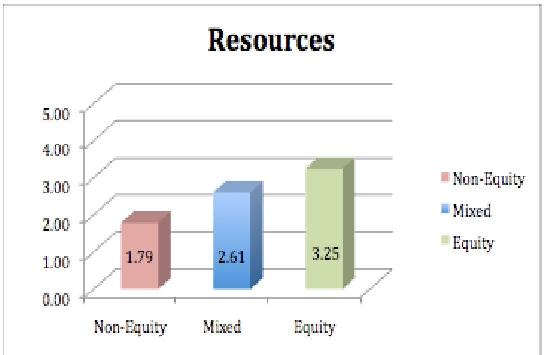

Figure 22: ANOVA Contrasts fort the variable Resources (split up by strategies)

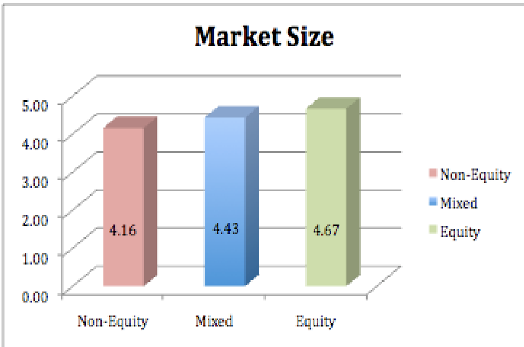

Figure 23: ANOVA Contrasts for the variable Market Size (split up by strategies)

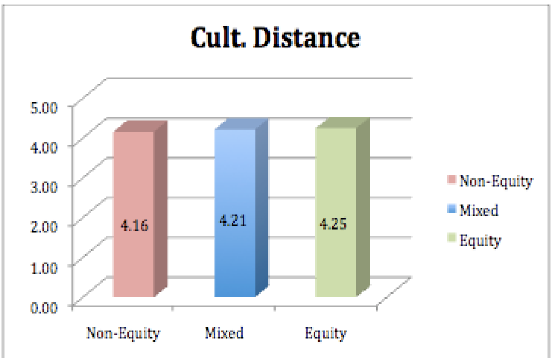

Figure 24: ANOVA Contrasts fort the variable Cultural Distance (split up by strategies)

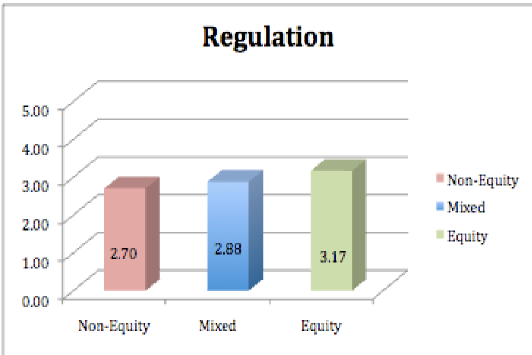

Figure 25: ANOVA Contrasts for the variable Regulation (split up by strategies)

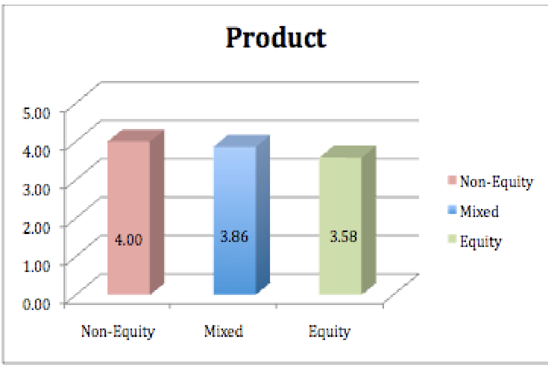

Figure 26: ANOVA Contrasts fort the variable Product (split up by strategies)

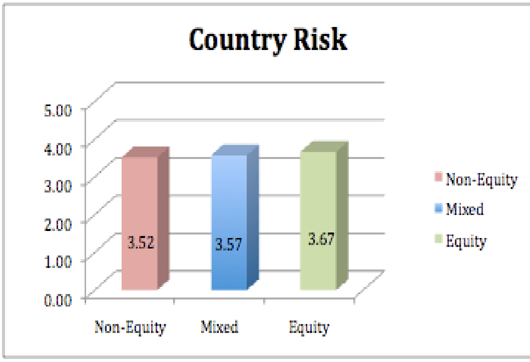

Figure 27: ANOVA Contrasts for the variable Country Risk (split up by strategies)

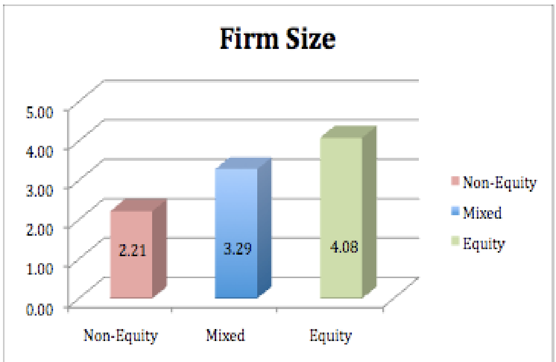

Figure 28: ANOVA Contrasts fort the variable Firm size (split up by strategies)

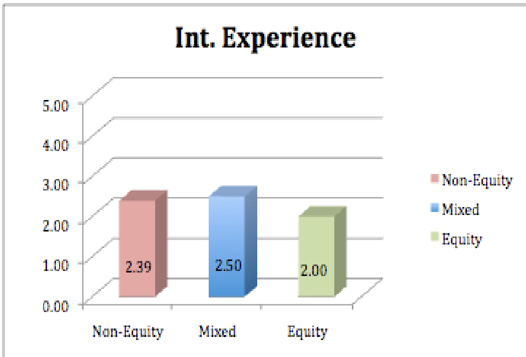

Figure 29: ANOVA Contrasts for the variable Int. Experience (split up by strategies)

We can not see much difference between the equity modes regarding the following variables: timing of entry, competition, market size, cultural distance, regulation, product (=standardization of products), country risk and international experience.
Small differences seem to occure regarding broad product portfolio between mixed and equity modes. For equity modes the average product portfolio is wider than for mixed modes. Regarding the variable knowledge, a slight difference between mixed and non-equity modes can be seen. For non-equity (and equity) modes knowledge about the market is slightly higher than for mixed modes.

A visible difference occurs regarding the variable resources between non-equity and equity modes. The resume commitment seems to be higher in case of equity modes compared to non-equity modes. Furthermore, the contrasts show that firms which choose equity modes seem to be bigger than the ones choosing non-equity modes.

As a next Stepp, I produced a correlation matrix of the independent variables, showing that the variables had only weak correlations among each other. The table can be seen in the appendix B. According to Aulakh and Kotabe (1997), with weak correlations the regression model is the most suitable model for further investigations.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.734[a]	.538	.380	.562

a. Predictors: (Constant), CountryRisk, Broad prod. portfolio, Knowledge, CultDistance, Many comp. in the market, Countries 5 Intervall, Resources, Timing of entry, Product, MarketSize, Firm Size 1, Regulation2

Table 2: Multiple Regression via SPSS

Subsequently, a multiple regression was computed, which calculates a multiple correlation coefficient of 0.734 denoting a relation between the independent variables and the dependent variable. The coefficent can range from 0 – 1, the closer the value reaches one the more explicitly it shows that a relation exists.

R^2 (0.538) shows the total variance of the criteria (entry modes) explained through regression. In this case, the dependent variables account for 53.8% of the variation of entry mode strategies.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	12.868	12	1.072	3.397	.002[a]
	Residual	11.049	35	.316		
	Total	23.917	47			

a. Predictors: (Constant), CountryRisk, Broad prod. portfolio, Knowledge, CultDistance, Many comp. in the market, Countries 5 Intervall, Resources, Timing of entry, Product, MarketSize, Firm Size 1, Regulation2

b. Dependent Variable: Equityform

Table 3: Regression via SPSS (ANOVA table)

When looking at the ANOVA, the F value of 3.397 is not outstandingly high but states clearly (as it is greater than 1) that the model is significantly responsible for predicting the outcome variable.

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.452	.992		.455	.652
	Timing of entry	-.052	.096	-.066	-.539	.594
	Broad prod. portfolio	-.148	.075	-.259	-1.979	.056
	Many comp. in the market	.003	.078	.004	.034	.973
	Knowledge	-.135	.085	-.196	-1.591	.121
	Resources	.282	.104	.388	2.714	.010
	MarketSize	.088	.134	.093	.661	.513
	CultDistance	.111	.134	.103	.828	.413
	Countries 5 Intervall	-.008	.076	-.015	-.104	.918
	Product	-.114	.111	-.136	-1.031	.310
	Firm Size 1	.171	.065	.390	2.638	.012
	Regulation2	.309	.171	.292	1.811	.079
	CountryRisk	-.061	.164	-.052	-.374	.710

a. Dependent Variable: Equityform

Table 4: Regression with SPSS (Coefficient table)

The table with the coefficient of all predictors included in the model shows the positive or negative relationships between each variable and the different entry modes.
The following variables have a positive relation meaning, that the higher their value, the higher the equity in the entry modes: resources, market size, cultural distance, firm Size, competition and regulation.

The following variables have a negative relation meaning, that the higher their value, the lower the equity in the entry mode: timing of entry, broad product portfolio, knowledge, international experience (countries), product (standardisation of products) and country risk.

When looking closer at the t-values and the significance, we can see that (keeping in mind the thumb rule that sig should be below 0.05) only resources, firm size and eventually broad product portfolio (0.051) fulfill this requirement. The rest of the variables seem to lack a significant influence towards the variable entry mode.

According to the correlations (respective SPSS table in appendix B), the positive and negative relations of the variables are approved the same as due to the multiple regression, besides the variable country risk (negative correlation according to regression and positive relationship due to bivariate correlation).

Again, only the following variables had a significant influence on the market entry strategy variable: resources (significant at 0.01 level), firm size (significant at 0.01 level). But broad product portfolio seems to have not a significant influence on the dependent variable due to the results from the bivariate regression.

The three biggest industry sectors in the study show that in the industrial machinery and equipment sector the majority of companies decided in favor of non-equity modes. The same is the case for the instrumental and related products sector, but it shows a much clearer picture. In electronic and other electronic equipment the companies nearly equally chose mixed or non-equity modes.

The rest of the companies were split up to various sectors, which does not give the possibility to make a statement about a trend for choosing a specific entry mode when operating within a specific industry. Therefore it was not possible to run statistics or draw conclusions out of this data set for the industry sector.

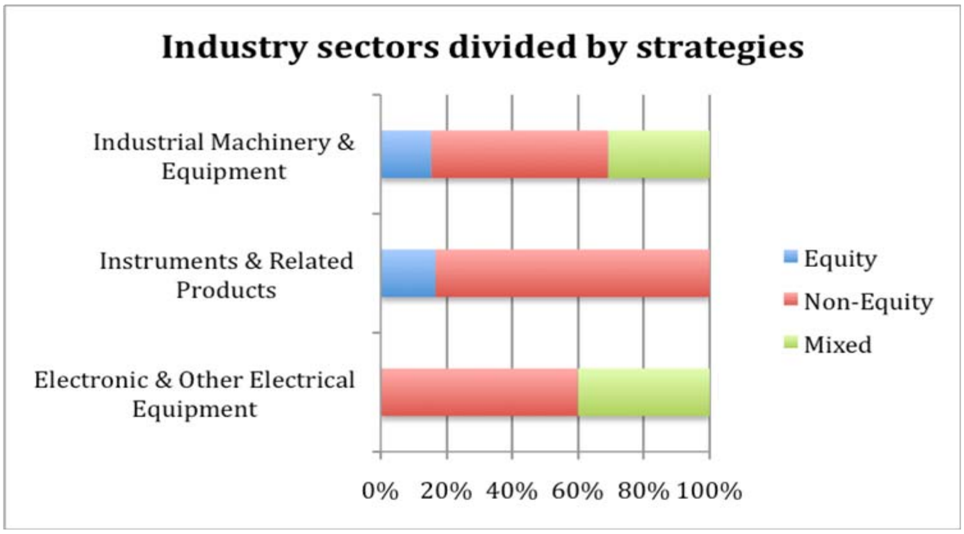

Figure 30: Biggest industry sectors divided by chosen strategies

7 Interpretation

7.1 Results of the study

With the gained results some of the predefined hypothesis could partly be proofen or rejected, as described below.

H1: The first hypothesis can be confirmed, as bigger companies with their better access to a great amount of resources, clearly prefer equity modes over non-equity or combined strategies.

H2: The relationship of timing of market entry and entry mode could not be confirmed. The data does not show a significant difference in the decision for an entry mode strategy regarding their timing of entry. It even leads to the conclusion to be negatively related, meaning the earlier the company entered the market, the higher the chance that an equity strategy was chosen.

H3: Again the difference between the three strategies is only minor and not significant. This hypothesis regarding the factor international experience could also not be proven. Furthermore, a negative relationship seems to appear, which implies that with high international experience mixed and non-equity strategies are preferred.

H4: For the variable market/country knowledge holds the same. The difference between the entry strategies regarding this variable is very minor. It seems that companies with less knowledge prefer mixed entry strategies and companies with better knowledge choose equity or non-equity strategies. But the relation is not significant.

H5: It seems that companies offering a broader product portfolio, prefer equity modes over non-equity and mixed modes, but also prefer non-equity modes over mixed modes. The hypothesis is true and significantly supported, but surprisingly when a firm relies only on a small product range it chooses in favor of combined modes. Because of this, regression and correlation show a negative relation.

H6: The data show a negative relationship between the standardisation of products and the equity-share of an entry strategy. But here as well, the influence seems not to be significant.

H7: This hypothesis could be confirmed as companies which are able and willing to invest a high amount of resources (financial, employees, knowledge, etc.) clearly prefer equity over mixed and non-equity modes.

H8: With greater competition, companies turn towards equity strategies. But again the positive relation seems not to be highly significant.

H9: The data supports the hypothesis, that with a great and growing market, companies become and act more secure and decide more often in favor of an equity entry mode. But here again, the result is not significant.

H10: The data of the host country risk variable shows that equity modes are preferred over non-equity modes in order to minimise at least the financial risk, when the risk of operating in this country is already quite high. But with low risk combined modes are chosen over non-equity modes.

H11: The greater the cultural distance between the entering foreign company and the target country, the higher is the chance that a firm opts in favour of a high equity mode. Again this positive relation is not significant enough, as regression and correlation show.

H12: A positive relationship can be viewed between regulations and equity. The companies obviously decide in favor of equity modes in case of stronger regulations. But the relation is not significant enough.

When including the cases with mixed entry strategies in the study, we do not get significant results in the majority of investigated hypothesis.
Therefore, a second statistical analysis was done to check if the results change or show a clearer tendency of the relationships. This time the mixed modes were left out and only the equity and non-equity cases were used as a basis for the statistics. The results were the same as in the first analysis.

Summed up, it can be stated, that H1, H5 and H7 are significantly supported. In cases of greater firm size, a broader product portfolio and higher resource commitment companies will choose entry modes with higher equity share.
H8, H9, H11 and H12 show a positive relation as assumed, but on a low significance level. Cultural distance, regulation, competition and market size seem to increase the chance of entering a market through a (high) equity mode.
Knowledge, host country risk and the industry seem to have no influence at all on the entry mode decision, at least in this study.

Maybe in developing countries, information about the market may anyway never be enough and 100% accurate or up to date, as it is difficult to draw general statements in such countries. Therefore, companies will always perceive their level of knowledge about the market as low to medium. That the perceived level of host country risk shall not have influence on the entry mode decision, surprises. It is an important factor, according to the literature and prior studies. But this factor might show clearer and significant relation regarding entry modes, within studies undertaken in different countries, where it is possible to compare the different levels of country risks.

Industry sectors are as well proven by several studies to be of influence, but in this case the sample was not representative regarding the industry sectors, as the majority of the cases belonged to one single branch and the rest was scattered over a great number of sectors, where one case belonged to one branch. That is why no conclusions can be drawn here.

H2, H3, as well as H6, only show a slightly negative relation to the level of equity. With greater international experience, a rather late timing of market entry and a high standardization level of products companies may tend to choose a low or non-equity mode according to this study. Due to earlier studies, it was expected to see a positive relation between these factors and the equity level. For the factors international experience and standardization level I have no explanation for the results. In the case of timing of market entry, a later entry may lead to such a high level of competition and a very small share of the market, that firms start with low equity in order not to invest too much as the return might be minor and it may take much more time to retrieve the investments.

Factors investigated	Equity
F - International Experience	**xxx-**
F - Knowledge market / country	**xxx**
F - Products and processes: standardised	**xxx-**
F – Product Portfolio	+
F - Resource commitment	+
F - Firm size	+
F - Early market entry/Timing	**xxx -**
H - Host country risk	**xxx**
H- Cultural distance	+
H - Law enforcement/Regulation	+
I – Competition	+
I - Market size	+
I - Industry sector	**xxx**

Table 5: Relation between Factors and Equity

(xxx…..no or not significant relation, +….pos. relation, -…..neg. relation)

As the majority of cases consisted of companies, which were using exporting as entry mode, the sample was not well distributed and this may have impact on the significance of the relations investigated.

I separated the export modes and calculated the descriptive statistics again only for this entry mode. It led to the same outcomes as the whole study, but the results were even clearer.

7.2 Conclusio

The study, consisting of a sample of 57 Austrian companies, did not give the clear results I hoped for. As the majority of firms used the export mode, the sample was not a well distributed one. This should be avoided, but in this study the assumption stands to reason that the majority of Austrian companies operating in India is using exporting as their strategy, which makes it difficult to draw a uniformly distributed sample.

This leads me to the conclusion, that no theory or model can include all factors responsible for the entry mode decision. On one hand, because decisions are made by people and these decision makers make mistakes, or do not behave according to the

established models. Sometimes they walk exactly in the opposite direction, to try something new, or because people sometimes just behave illogical or because they follow a personal feeling based on prior experiences.
Furthermore, not all companies can be lumped together for a study, but one needs to distinguish between the different industries for example, the companies are working in, if this might be production or services. And so many more factors distinguish between the companies.

We also learned that a great amount of companies used mixed modes, combining equity and non-equity modes. In my opinion, this is a very surprising fact, that different modes were used parallel so often.
This raises the question if these combined modes will get more popular and the pure equity or non-equity will loose importance, or better said will not be used individually anymore.
As companies use the strategy to enter different markets at the same time with a similar mode, they might also enter a single country with different entry strategies at the same time.

8 Future empirical studies

Even if there already exists quite some literature on the subject of entry mode decision, some aspects still need more attention.

As stated in the previous chapter, a lot of firm characteristics play a role and companies should, as a first step, be separated according to these attributes and be grouped. In my opinion, it will give clearer results and better implications if studies are undertaken for individual groups of companies and according to, for example, different branches than for all together.

With the focus on specialisation I am sure that relations and significant influences can be explicitly identified and more valuable conclusions can be drawn. In my opinion, studies with 500 companies out of the Forbes list do not make much sense in my opinion. It may serve to identify in general some possible factors and possible relations, but this should not lead to detailed assumptions.

Another important fact is that decisions are formed by individuals, as stated in the previous chapter already. These decision makers will also have certain characteristics like different experiences, levels of willingness to take risks or origin. Studies focusing on the attributes of such managers would also be very important. Research regarding this subject is very rare because it is quite difficult and takes a lot of time.

As mentioned before, this study raises the question of using mixed entry modes as a strategy. Are pure equity or non-equity modes so to say “old-fashioned”? Are mixed entry modes more popular and will they be used more often in the future? Does a market require nowadays the use of advantages from different entry mode combinations? Are market entries in developing countries a very different topic and need broader strategies to support each other to minimize the risks?

Further implications for future research might also be to focus on more studies regarding a firm´s performance after the market entry. This would be important for companies during the decision process in order to rely on succesfull strategies from the past.

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APPENDIX

A) Cronbach´s Alphas

- Market Knowledge

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.810	.812	2

Item Statistics

	Mean	Std. Deviation	N
high market knowledge	3.28	1.176	57
high cultural knowledge	3.33	1.058	57

- Proprietary nature of products

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.453	.454	2

Item Statistics

	Mean	Std. Deviation	N
products are standardised	4.00	1.052	57
products need specialization	3.88	.983	57

- Resources

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.620	.624	2

Item Statistics

	Mean	Std. Deviation	N
huge capital inv.	2.30	1.052	57
hire employees	2.05	1.202	57

- Firm size

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.860	.860	2

Item Statistics

	Mean	Std. Deviation	N
Employees Interval	2.4694	1.73328	49
Sales Volume Interval	3.0000	1.71998	49

- Market size

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.624	.650	2

Item Statistics

	Mean	Std. Deviation	N
market is huge	4.05	1.042	57
market is still growing	4.46	.734	57

- Host country risk

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.590	.590	2

Item Statistics

	Mean	Std. Deviation	N
import export control	3.58	.755	57
control over money flows	3.44	.708	57

- Cultural differences

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.813	.817	2

Item Statistics

	Mean	Std. Deviation	N
diff. in business behaviour	3.98	.767	57
diff. in cultural behaviour	4.23	.682	57

- Regulation

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.424	.454	3

Item Statistics

	Mean	Std. Deviation	N
local production	2.35	1.188	57
control over foreign exchange	3.40	.942	57
government constraints	2.72	.648	57

B) Correlation Matrix: Independent Variables

Inter-Item Correlation Matrix

	Countries 5 Intervall	Knowledge	broad prod. portfolio	Products	Firm Size 1	Resources	timing of entry	many comp. in the market	MarketSize	Country_risk	CultDistance	Regulation	Industry sector
Countries 5 Intervall	1.000	-.013	.223	.309	.269	.094	.026	.039	.257	.081	.015	-.341	-.235
Knowledge	-.013	1.000	-.056	-.207	-.054	-.050	-.049	-.145	-.102	-.046	.111	.163	.363
broad prod. portfolio	.223	-.056	1.000	.647	.357	.227	-.187	.047	.277	-.003	.056	-.162	-.074
Products	.309	-.207	.647	1.000	.277	.126	-.019	.117	.358	-.042	-.045	-.308	-.208
Firm Size 1	.269	-.054	.357	.277	1.000	.462	-.033	.043	.284	-.003	-.213	-.167	-.038
Resources	.094	-.050	.227	.126	.462	1.000	-.173	.102	.324	-.064	.094	-.130	-.062
timing of entry	.026	-.049	-.187	-.019	-.033	-.173	1.000	.196	-.045	.136	-.044	.058	-.022
many comp. in the market	.039	-.145	.047	.117	.043	.102	.196	1.000	-.073	.128	-.097	.172	-.033
MarketSize	.257	-.102	.277	.358	.284	.324	-.045	-.073	1.000	.164	.055	.037	.131
Country_risk	.081	-.046	-.003	-.042	-.003	-.064	.136	.128	.164	1.000	.094	.368	.187
CultDistance	.015	.111	.056	-.045	-.213	.094	-.044	-.097	.055	.094	1.000	-.017	.012
Regulation	-.341	.163	-.162	-.308	-.167	-.130	.058	.172	.037	.368	-.017	1.000	.300
Industry sector	-.235	.363	-.074	-.208	-.038	-.062	-.022	-.033	.131	.187	.012	.300	1.000

C) Questionnaire

*** 01: Which strategy did the company choose to enter the Indian market?**

Please choose **all** that apply:

- Exporting
- Licensing
- Franchising
- Management Service Contracts
- Processing & Assembling Arrangements
- Contractual Joint Venture
- Portfolio Investment
- Equity Joint Ventures
- Wholly owned subsidiaries
- Merger
- Acquisition

*** 02: Why do you think was this strategy chosen?**

Please choose **all** that apply:

- to share the cost of entering the new market
- to share the risk
- to combine complementary strengths
- law enforcement
- to minimize transaction costs
- to retain flexibility (make decisions quickly)
- to benefit from greater efficiency through economies of scale
- to increase survival-chances
- to increase profits
- to strengthen the ability to resist environmental change
- to learn (about the market, about the prodution process, ...)

Other:

*** 03: Compare your company's moment of investment into India with that of your international competitors operating in the Indian market. Please indicate whether you perceive your market entry as early or rather late.**

Please choose the appropriate response for each item:

	very early	little earlier than the most	moderate	little later then the most	very late
Please choose	☐	☐	☐	☐	☐

*** 08: Please mark the statements about your company according to your agreement or disagreement.**

Please choose the appropriate response for each item:

	Totally agree	Mainly agree	Neither nor	Mainly disagree	Totally disagree
Your business unit has made a huge capital commitment to enter the Indian market	☐	☐	☐	☐	☐
Your company has hired (will hire) a large number of employees to operate in the Indian market	☐	☐	☐	☐	☐
Your company is offering a broad portfolio of products in India	☐	☐	☐	☐	☐
Main features of your product(s) are standardized across major markets in the world	☐	☐	☐	☐	☐
Your product(s) need(s) to be highly adapted (specialized) for each country	☐	☐	☐	☐	☐

*** 09: Please mark the statements about the market you entered according to your agreement or disagreement.**

Please choose the appropriate response for each item:

	Totally agree	Mainly agree	Neither nor	Mainly disagree	Totally disagree
Knowledge about the Indian market (industry, competitors, prices, growth,..) was *high* before entering	☐	☐	☐	☐	☐
Many international competitors were already in the Indian market when you entered	☐	☐	☐	☐	☐
The market you entered is huge	☐	☐	☐	☐	☐
The market you entered is still expected to grow	☐	☐	☐	☐	☐

*** 10: Were there any legal restrictions for your market entry into India?**

Please choose **only one** of the following:

- Yes
- No
- I don't know

[Only answer this question if you answered 'Yes' to question '10 ']

*** 10a: If yes, please describe the legal restrictions briefly**

Please write your answer here:

*** 11: Please mark the statements about India according to your agreement or disagreement**

Please choose the appropriate response for each item:

	Totally agree	Mainly agree	Neither nor	Mainly disagree	Totally disagree
Knowledge about the Indian culture (and religion) was *high* before entry	☐	☐	☐	☐	☐
The Indian government has demanding laws that require a certain percentage of a product's components to be produced locally	☐	☐	☐	☐	☐
There is extensive government control over foreign exchange in India	☐	☐	☐	☐	☐
The monetary system in India is stable	☐	☐	☐	☐	☐

* **12: What are the most important points to be considered when entering the Indian market - in order to avoid problems?**

Please choose **all** that apply:

- ☐ the culture - cultural differences
- ☐ the legal system
- ☐ the bribery
- ☐ the fact that India is a developing country
- ☐ the legal regulations concerning a market entry
- ☐ the income distribution within the population
- ☐ the level of education
- ☐ the infrastructure
- ☐ the level of product quality in India
- ☐ the level of service quality in India

Other: ______

* **13: Please mark the further statements about India according to your evaluation.**

Please choose the appropriate response for each item:

	very low	low	medium	high	very high
The import and export control in India is	☐	☐	☐	☐	☐
The control over money transfer in India is	☐	☐	☐	☐	☐
The likelihood of Indian government constraining the business operation intensity is	☐	☐	☐	☐	☐
The overall risk of doing business in India is	☐	☐	☐	☐	☐
The perceived differences in business practices between Austria and India are	☐	☐	☐	☐	☐
The perceived differences in culture between Austria and India are	☐	☐	☐	☐	☐

* **14: From today's point of view, do you think that your company has chosen the right entry strategy?**

Please choose **only one** of the following:

- ☐ Yes, I think it was the right entry strategy
- ☐ I am not sure if it was the right strategy
- ☐ No, I think from today's point of view I would choose a different entry strategy

* **14: From today's point of view, do you think that your company has chosen the right entry strategy?**

Please choose **only one** of the following:

- ☐ Yes, I think it was the right entry strategy
- ☐ I am not sure if it was the right strategy
- ☐ No, I think from today's point of view I would choose a different entry strategy

[Only answer this question if you answered 'No, I think from today's point of view I would choose a different entry strategy' to question '14 ']

14a: Why was the entry strategy not the right choice? What would you do different?

- not mandatory -

Please write your answer here:

15: Why did your company decide to enter the *Indian market*?

- not mandatory -

Please write your answer here:

Abstract (German)

Im Zuge dieser Diplomarbeit wurde eine Studie zu den Einflussfaktoren des Entscheidungsprozesses bezüglich einer Markteintrittsstrategie durchgeführt. Die Befragung erfolgte online mit österrereichischen Unternehmen, welche in Indien am Markt präsent sind.

In der Arbeit wird als Einführung ein Länderprofil von Indien zusammengefasst, einschliesslich historischer Eckdaten und kultureller Entwlicklung, wirtschaftlicher Daten als auch Kennzahlen betreffend den Handel zwischen Österreich und Indien. Weiters werden die verschiedenen Markteintrittsstrategien, welche für diese Studie herangezogen wurden, kurz beschrieben und die wichtigsten Modelle und Theorien aus der Literatur, einschliesslich der bereits untersuchten Einflussfaktoren, erklärt.
Die Studie wurde in einem Entwicklungsland durchgeführt, da die Vermutung nahe liegt, dass sich der Entscheidungsprozess im Gegensatz zu einem Markteintritt in ein Industrieland unterscheidet.

Es konnte ein signifikanter positiver Zusammenhang zwischen Firmengröße, Produkt Portfolio und dem Einsatz von Resourcen mit der Höhe des Equity-Anteils der gewählten Strategie bestätigt werden. Kultureller Unterschied, rechtliche Regulierungen, sowie Konkurrenz und Potential des Zielmarkts weisen ebenfalls einen positiven Zusammenhang mit der Höhe des Equity-Anteils auf, allerdings auf einem äusserst geringen Signifianzniveau. Internationale Erfahrung, später Markteintritt und ein hohes Maß and Standardisierung der eigenen Produkte führen unter Umständen zur Wahl einer Strategie ohne Equity-Anteil. Bei diesen drei Faktoren ist der Zusammenhang allerdings besonders schwach und deshalb nur mit Vorsicht zu berücksichtigen. Der Informationsstand über den Zielmarkt, das Risiko des Gastlandes und der Industriesektor scheinen laut dieser Studie keinen Einfluss zu haben.

Da die Stichprobe der Unternehmen nicht ausgewogen war, denn ein Großteil hatte sich für Export als Strategie entschieden, lässt sich vermutlich so das niedrige Signifikanzlevel erklären.

Ein überraschendes Resultat war, dass ungefähr ein Drittel der Firmen Strategien sowohl mit als auch ohne Kapitalbeteiligung kombiniert angewandt haben. Hier sollte in weiteren Studien der Frage nachgegangen werden, ob Entwicklungsmärkte durch ihre Dynamik und besonderen Herausforderungen solche Kombinationen erfordern.

Abstract (English)

Within this thesis a study, regarding influencing factors of the decision process towards a market entry strategy, was conducted. A questionnaire for Austrian companies, operating within the Indian market, was developed and retrieved online.

As introduction a country profil of India is summarised, including historical data and cultural development, economic numbers as well as key data concerning the trade between Austria and India. Furthermore, the different market entry strategies, which constitute the basis for the study, are described. An explanation of the most important models and theories from the literature, including the already investigated influencing factors, follows.

The study was undertaken within a developing country, because it is assumed that the entry into an emerging market differs a lot from the move into an industrialised country.

As result, a significant positiv relation of firm size, product portfolio and resources with the equity share of the chosen strategy could be proved. Cultural distance, regulation, and competition as well as potential of the target market also show a positiv relation with the share of equity, but on a low level of significance. International experience, late market entry and high standardisation of own products possibly lead to a strategy without equity share. Regarding these three factors, the relation is quite weak and should therefore only be considered very carefully. Information/knowledge about the target market, the host country risk and the industry seem to have no influence on the market entry decision according tho this study.

The sample of the companies was not well balanced, because the majority of companies chose export as their stategy, which explains the low level of significance.

A surprising result was that about one third of the companies combined strategies with and also without equity for their entry. In further studies it should be discussed, if emerging countries, through their dynamic and special challenges, require such combinations.

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