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The Choice of Foreign Entry Modes in a Control Perspective

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The aim of this article is to investigate the choice of entry modes for international markets in a control perspective. A survey from the Confederation of Danish Industry with 234 Danish Small and Medium Enterprises (SMEs) served as the data base. The entry modes are categorized into three groups depending on the control that the company has over its activities abroad. The paper examines the selected factors that influence the entry modes of Danish SMEs in different strategic settings. Results show that the most deciding factor for the choice of high control entry mode (subsidiary) was the factor 'turnover'. The factors, personal networks and the interruption of the international activities, were the most significant factors for the choice of intermediate mode (joint ventures and strategic alliances).

Introduction

Focus on the internationalization of Small and Medium Enterprises (SMEs) has increased, in as much as the companies today are characterized by a high degree of globalization and internationalization independent of their size. Therefore, the growth of SMEs, including the successful development of the international markets, is recognized as crucial for the economic development and the future wellbeing of the nations.

The decision to internationalize SMEs includes: determination of the countries and foreign markets in which they wish to operate, and the structural nature of their activities in those markets (Carazo and Lumiste, 2010).

When a company decides to expand internationally, it has to carefully select the foreign market in which it wants to operate. The choice of market involves analyzing strategic needs and orientation of the firm beforehand. After choosing the foreign market, the company's operations in the foreign market have to be determined (Goodnow, 1985; Papadopoulos, 1988; and Kumar *et al.*, 1994).

The firm's operations in the market depend on its choice of foreign entry mode. An entry mode can be defined as an institutional arrangement chosen by the parent company in the foreign market. Foreign entry mode strategy is the most critical decision as it influences all the future decisions (Kumar and Subramaniam, 1997).

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Consequently, international entry mode research is important because the chosen entry mode has significant implications on performance (Canabal and White, 2008). It determines whether a company has full control over the foreign unit or has to share control with a partner (Arregle *et al.*, 2006). In addition, once the mode of entry is established, it is difficult to change because it has long-term consequences for the company (Brouthers and Hennart, 2007).

Objective

These arguments motivate this study, of which the main research objective is:

- To determine the factors influencing the choice of foreign entry modes by Danish companies seen in a control perspective.

Categorization of Entry Modes

A foreign market entry mode is an institutional agreement that makes possible the entry of a firm's productions, technology, human skills, management and other resources within a foreign country (Krishna, 1989, p. 50).

Essentially, a choice of entry mode comprises choice of location and level of control. Thus, resources may be located domestically or in the foreign market and controlled by the firm itself (full control) or through an export contract arrangement (e.g., with agents and distributors). Anderson and Gatignon (1986) define 'control' as the ability to influence the systems, methods and decisions. Control is an important construct in the entry mode literature because it is an antecedent for determining potential risks and rewards (e.g., returns on assets) for firms entering foreign markets (Anderson and Gatignon, 1986). A high control mode can increase the profitability and risk; and a low control mode diminishes the commitment of resources, but frequently at the expense of profitability.

Consequently, a company can enter a foreign market via the following three categories of entry modes according to the level of control (Hollensen, 2010).

High Control Modes

Foreign Direct Investment (FDI) in the form of Wholly Owned Subsidiaries (WOS), or Original Equipment Manufacturers (OEMs)—both entry modes are equal to full control with activities in foreign markets.

Intermediate Modes

Mainly Strategic Alliances (SAs) and Joint Ventures (JVs) are somehow in-between high and low control modes. Within this category of entry modes, the partners agree to share resources, technology, profits and jobs, and supplement each other's needs for a long period of time. Unlike a JV company, an SA does not involve formation of a new company. Typically in such cooperations, the local partner provides market-specific knowledge, such as marketing skills and relationship cultivation that are fundamental to parent companies' operations in new foreign markets.

Low Control Modes

Indirect and direct export belongs to the low control category. Indirect export represents the lowest degree of control of the activities in the foreign market. It occurs when the parent company uses independent organizations located in the parent company's own country (or third country). Direct export occurs when the parent company sells directly to an agent, distributor or importer located in the foreign market area. This provides a higher degree of control than with indirect export. But still direct export belongs to the low control modes as the parent company deals with a foreign independent company which can decide independently and may choose to include products from several different parent companies. Typically, the local agent is the responsible and controlling part for implementing the local marketing activities. However, the planning of these activities is often done in cooperation with the parent company.

The use of local agents is very common in international business. Agents can provide valuable information on local market conditions (e.g., social, legal, economic, political and financial); contact with local customers, suppliers and governmental institutions.

Each mode has different implications according to the degree of control that the firm can exert in the international operation and the resources and risks that it must assume to expand in a foreign market. Therefore, the choice of an appropriate foreign entry mode in a given context is a difficult and complex task for the management (Hill *et al.*, 1990). Each foreign market entry mode represents a continuous international expansion involving different levels of control.

A high control mode generally implies high commitment and high business risks but allows the highest share of return on investments (Ekeledo and Sivakumar, 2004). A low control entry mode on the other hand may be chosen due to a need for resources and, in general, brings less commitment and risk (Chen and Messner, 2009). It is, however, important to note that an intermediate entry mode also may bring a relatively high degree of control. This may, for example, be the case of JVs or a tightly run franchise system.

Theory

A number of theories and entry mode surveys have been applied to explain the entry mode decision (Canabal and White, 2008). Agarwal and Ramaswami (1992) indicate that the foreign entry mode choice constitutes a commitment of four factors: resources, control, risk and profits.

The focus of this study will mainly be on the internal 'control' aspect in relation to the external foreign markets as management needs to consider the degree of control that is required over operations in international markets.

Control is often closely linked to the level of resource commitment. Modes of entry with minimal resource commitment, such as indirect exporting provide little or no control over the conditions under which the product or service is marketed abroad. JVs also limit the degree of management control over international operations and can be a source of considerable conflict where the goals and objectives of the partners diverge. The WOS (hierarchical mode) provide the most control, but also require a substantial commitment of resources (Peinado *et al.*, 2007).

Anderson and Gatignon (1986) argue that control is the centre of the Transaction Cost (TC) economy, being the most important determinant of the risk and profitability. These authors emphasize election of the option that offers a greater profitability on investment, fit to the risk in viable surroundings and structuring the election of the foreign entry mode in terms of the control degree that each one offers to the firm.

The TC and institutional theory are among the most commonly used theories in international entry mode research (Brouthers and Hennart, 2007). Most of this literature is based on economic theory emphasizing the rational choice in relation to cost-minimization and risk-adjusted return on investment (Williamson, 1985; Anderson and Gatignon, 1986; Hennart, 1988; and Nielsen and Nielsen, 2011).

According to the TC theory, companies should choose the entry mode that minimizes the TCs. Several factors affect the TCs when the parent companies are dealing with export partners (low-control modes), including opportunism, the costs of monitoring and enforcing the contract with the export partner, and the existence of transaction-specific assets (Williamson, 1975). The TCs are high when:

- Opportunistic behaviors of the export partner can cause damage in the relationship between the parent company and the export partner (Williamson, 1993);
- It is difficult to enforce the contracts with export partners; and
- The degree of assets specificity is high.

If the TCs associated with finding, negotiating and monitoring potential export partner firms are low, the foreign companies should tend to rely on the market arrangement to deliver products and services (i.e., low control entry modes = export modes). But if the TCs are high, companies should consider switching to hierarchical (high control) entry modes (Gatignon and Anderson, 1988; Erramilli and Rao, 1993; and Makino and Neupert, 2000). On the other hand, asset specificity increases the costs of switching from one transaction partner to another, leading to contract hazards (Hill, 1990). Asset specificity which is the degree to which the company assets (e.g., products and services) are specialized to support trade for only a few parties (Williamson, 1975) therefore encourages hierarchical (high control) mode (Chen *et al.*, 2009).

According to the TC theory, the choice between high, intermediate and low control entry modes depends on the costs and benefits of the three options (Williamson, 1985; and Hennart, 1988). When market transactions or contracts are subject to high transaction costs in export contracts, sharing equity and resources (in form of a JV) might be efficient because it aligns the incentives of the parties and thus reduces the risk of opportunism. In line with this view, literature suggests that different modes of foreign entry represent different levels of resource commitment risk and control (Anderson and Gatignon, 1986). Accordingly, a JV is the pooling of assets in a common and separate organization by two or more firms, resulting in lower commitment and shared ownership, risk and control. WOS, on the other hand, are chosen when firms seek high control and are willing to make maximum commitment and take on maximum risk (Kogut and Singh, 1988). While such high control entry modes may result in potentially higher returns, such returns are accompanied by greater risk (Agarwal and Ramaswami, 1992).

Institutional theory (North, 1990) has also been applied to the entry mode decision as an extension to the TC theory. According to this view, environmental uncertainty is an important factor influencing the foreign market entry. Institutional and cultural context variables determine such uncertainty and are included alongside the traditional transaction cost variables to explain entry mode choices. The cultural distance between home and host country may influence the managerial cost and uncertainty evaluations in target markets (Kogut and Singh, 1988). The greater the cultural distance, the higher the perceived environmental uncertainty and risk of FDI.

High control modes of entry are more vulnerable to environmental uncertainties and risks because they are less flexible and involve higher irreversible investments (Hill *et al.*, 1990). As environmental uncertainty increases, companies may choose low control and intermediate entry modes over high control modes in order to limit the risk exposure and increase operational flexibility (Kim and Hwang, 1992; and Luo, 2001). At the same time, risk and cost associated with cultural distance between the host and target countries may be reduced by reduced ownership, in the form of choosing lower control modes (Slangen and Tulder van, 2009; and Nielsen and Nielsen, 2011).

Development of Hypotheses

The key argument of this article is that the firm's specific factors turn out to be essential in entry mode decisions.

One of the pioneering approaches that tried to justify FDI advantage theory is explained in Hymer (1976) and Kindleberger (1969). According to this conceptual framework based on industrial economies, a foreign-owned firm must have some ownership advantages that allow it to compete with local enterprises on equal terms. This argument is equally mentioned in the first of the three pillars on which Dunning's (1981) eclectic paradigm is supported. The other two are internalization advantages (which determine whether the firm will organize its activities through the market, or internally) and location advantages (which influence the choice of a target country).

Following these lines of argument, we will now propose a set of hypotheses that focus on the influence that different firm resources may have on the entry mode decisions.

Firm Size (Turnover)

Size is an indicator of the firm's resource availability; increasing resource availability provides the basis for increased international involvement over time. Although SMEs may desire a high level of control over international operations and wish to make heavy resource commitments to foreign markets, they are more likely to enter foreign markets using export modes because they do not have the resources necessary to achieve a high degree of control or to make these resource commitments. Export entry modes (low control modes), with their lower resource commitment may therefore be more suitable for SMEs (Cumberland, 2006; Carozo and Lumiste, 2010; and Hollensen, 2010).

Already Horst (1972) argued that, considering the inherent risks and fixed costs, the proneness to invest abroad must increase with the size of the firm, measured by the number of employees and turnover.

Besides, greater size implies greater availability of financial and managerial resources, which makes it easier to set up full-ownership subsidiaries (Tallman and Lindquist, 2002). In keeping with this, a large part of the empirical research has observed that the firm size correlates positively with the degree of commitment, assumed with the entry mode (Ramón, 2002; Trevino and Grosse, 2002; and Quer *et al.*, 2007a and 2007b).

This is why we can argue that larger-sized companies will have better guarantees to assume the commitment derived from an FDI initiative, which leads us to formulate the following hypothesis:

H_1: *Companies with a higher turnover are more likely to use high control modes.*

International Experience

The outcome of foreign expansion decisions is highly uncertain and risky. In addition, the information necessary to be processed is difficult to access and interpret due to the 'psychic distance' between the home and host country (Johanson and Vahlne, 1977; and Dow and Larimo, 2009). As a result, foreign expansion decisions are likely to be influenced by prior knowledge and experiences of decisions-makers.

Companies which have accumulated knowledge of foreign cultures and business practices through international assignment experience are better able to cope with the uncertainities associated with international operations, and thus, typically perceive FDIs as less risky than executives without such an experience (Carpenter *et al.*, 2001).

These extra experience skills will reduce the firm's uncertainty about being able to manage a subsidiary in a distant market make the managers more confident about entering with a high-control entry mode (Pehrsson, 2008; and Evans *et al.*, 2008).

Internationally experienced companies are likely to be confident in their ability to accurately estimate the risks and returns associated with foreign investments and as a result, are more aggressive in committing resources and assuming control over foreign operations (Erramilli, 1991). As argued by Tung and Miller (1990), international assignment experience contributes to the development of a 'global mindset' that leads to greater confidence in the ability to effectively handle FDIs. This may result in companies with international assignment experience opting for the highest degree of ownership and control in foreign operations. Herrmann and Datta (2002 and 2006) found that companies with international experiences are more likely to prefer full-control entry modes and will favor high control entry modes over low control entry modes. Koch (2001) states that firms which have collected knowledge in a region prefer to invest in the region rather than seek export modes there. This leads us to formulate the following hypothesis:

H_2: *Companies with a high degree of international experience are more likely to use high control entry modes.*

Employees

Prior research suggests that international assignment experience at the employee level helps reduce the uncertainty associated with international expansion (Sambharya, 1996). For instance, international experience increase awareness of international opportunities (Tihanyi *et al.*, 2000) and helps in developing the employees' superior ability to manage operations in different countries.

Specifically accumulated knowledge about foreign markets is important to overcome the 'psychic distance' of doing business abroad. In this way the international experience may serve as a surrogate for implementing an international strategy (Sambharya, 1996). In addition, international experience helps to establish informal networks that support decision-making in the international contexts (Athanassiou and Nigh, 2002).

From corporate international experience it has been found that extensive experience in general is positively correlated with a choice of high control entry mode (Gomes-Casseres, 1989; and Ekeledo and Sivakumar, 2004). Here, the international experience may be specified with language and cultural experience of different countries or geographic regions (Chen *et al.*, 2009).

We argue that international experiences are most likely to affect international strategic decision-making regarding entry mode decisions when several employees have competencies such as language skills, international experience and cultural understanding. If a large proportion of the employees have completed international assignments, they might share the same preferences for high control entry mode and be better able to communicate about, build consensus around, and implement high-control modes. Taken together these arguments suggest that companies with internationally experienced employees are more likely to prefer high-control over low control modes when expanding abroad (Nielsen and Nielsen, 2011). This leads us to formulate the following hypothesis:

H_3: *Companies are more likely to use high control entry modes when they prefer employees with (a) language skills; (b) international experience; and (c) cultural understanding.*

Type of Product

As opposed to B2C markets, in B2B markets the parent company tries to adapt its resources and product offerings 100% to its business customer, which means a high degree of asset specificity. Also B2B products are often connected to service elements, which are 'tacit' in nature.

When the nature of the firm-specific know-how transferred is tacit, it is by definition difficult to codify and patent and can only be acquired by 'learning by doing' (Hayek, 1945). Therefore, it is more difficult to transfer through contracts with external partners. Peinado *et al.* (2007) use the following measures for 'tacit know-how':

- Difficulty in understanding the involved skills and knowledge;
- Difficulty in transferring skills and knowledge;
- Difficulty in valuing a priori the exact price of a product/service;
- Difficulty in copying skills and knowledge.

Tacit know-how makes the drafting of a contract (to transfer such complex know-how) very problematic, because it is a form of knowledge that cannot be verbalized or formalized (Nonaka and Takeuchi, 1995; and Polanyi, 1966/1997). Difficulties in transferring tacit knowledge are often regarded as an incentive for firms to use high control modes. Hierarchical modes based on high investments can facilitate the intra-organizational transfer of tacit knowledge. When using hierarchical modes, the company can develop human capital and concentrate on organizational routines to solve the transfer problem. Therefore it can be argued that the higher the tacit component of firm-specific knowledge, the more it will favor high control modes (Hollensen, 2010). This leads us to the following hypothesis:

H_4: *Companies selling products to the B2B market are more likely to use high control modes.*

Network Relations

Network relations result from a firm's efforts to establish long-term relationships with other firms in order to sustain its competitive advantage (Thorelli, 1986; and Peng and Heath, 1996). Common backgrounds, such as similar ethnic, geographic, ideological, professional, or historical origins are the most common grounds for establishing network relations (Styles and Ambler, 2003).

Many empirical studies have shown that Chinese people were good at establishing and operating through personal networks, known as *guanxi* (Peng and Heath, 1996).

Through network linkages, firms may also achieve the goal of growth by mobilizing external resources without direct ownership, saving them substantial administrative costs of owning and managing resources. Therefore, the tighter the local distributors' structured network, the more likely it is that the parent company will abandon hierarchical control and opt for a collaborative arrangements in the form of intermediate entry modes. This is done in order to take advantage of the local partners' network resources for protection against threats and for obtaining local marketing resources needed for growth (Lin, 2000; Zhang *et al.*, 2007; and Chen *et al.*, 2009). This leads to the following hypothesis:

H_5: *Companies with a high preference for personal networks are more likely to use intermediate modes.*

Discontinuation of International Activities

Evidently, high control modes of entry require high amounts of resource commitment, contractual modes – low to medium, and export modes – low. Investment arrangement consumes a large amount of resources since the full cost of serving a foreign market is borne by the firm. Setting up a WOS, for instance, requires the transfer of people and equipment, the purchase, lease or construction of offices and/or manufacturing facilities, and the development of a network of suppliers and customers. Furthermore, there is an opportunity cost of investing resources in one country which may prevent the firm from investing resources in another (Driscoll and Paliwoda, 1997).

The consequence of high risk may eventually result in the discontinuation of the company's activities and the loss of company resources in a particular international market (Morschett *et al.*, 2010a and 2010b).

Export (low control) modes require fewer resources and involve lower risks. In many situations, exporting is a low resource commitment mode since the firm employs the assistance of agents and distributors to serve the market, rather than using its own personnel.

Consequently, when companies experience discontinuation of international activities and loss of company resources in one market, we assume that they are risk-averse at subsequent market entries and prefer low control entry modes (Canabal and White, 2008; and Kouznetsov and Jones, 2009). This leads us to the following hypothesis:

> H_6: *Companies who have stopped their activities on an international market are more likely to use export (low control) modes.*

Monitoring of Suppliers

Planning and control allow firms to safeguard upstream supplies of essential inputs to the production process, coordinate activities, ensure the quality of end products, and influence the logistical and marketing activities for the product in the target market (Anderson and Gatignon, 1986; and Dunning, 1988).

Williams (1999) concluded that greenfield and JV entrants into the UK market increased their purchases from UK suppliers and decreased their purchases from the suppliers from the parent company compared to merger and acquisition entrants. Williams (2005) further stated that "greenfield entry into the UK market will have a relatively positive impact on supplier linkages, whereas merger and acquisition entry will have a relatively negative impact" (p. 85).

In addition Zanfei (2000) argued that the higher the degree of autonomy given to subsidiaries by the parent company, the greater will be the development of connections with the local suppliers. Moreover, Williams (2005) found there is some evidence 'that subsidiary autonomy has a determining influence on the creation of supplier linkages' (p. 85). This leads us to the following hypothesis:

> H_7: *Companies with a high degree of monitoring suppliers are more likely to use high control modes.*

Planning and Control of International Activities (H_8 and H_9)

Planning and control also enables the firm to gauge more precisely the needs of the market and to design products and services in such a way as to better satisfy these needs, as well as to anticipate and respond to the moves of the competitors. In effect, manufacturing planning and control allows the firm to determine its own destiny.

To hold a high degree of control over the international activities is seen as the main advantages of high control modes. Thus when the company chooses an entry mode it is very often a trade-off between control on the one hand (benefit of integration) and the necessary resource commitment (benefit of integration) on the other. Control refers to the authority over strategic and operational decisions concerning the foreign operations and resource commitment refers to the assets the company needs to dedicate to the foreign market (Morschett *et al.*, 2010a and 2010b). Resource commitment and flexibility are closely linked to each other. Morschett *et al.* (2010a and 2010b) define flexibility as the firm's ability to switch the chosen operation mode quickly and with low costs or even to exit the market when market conditions have changed. Therefore, high resource commitment reduces the strategic flexibility of the company. When the company selects a high control mode, it faces a low flexibility and a high resource commitment and the expansion process tends to be more planned. This leads us to the following hypothesis:

> H_8: *Companies which have planned their international expansion are more likely to use high control modes.*

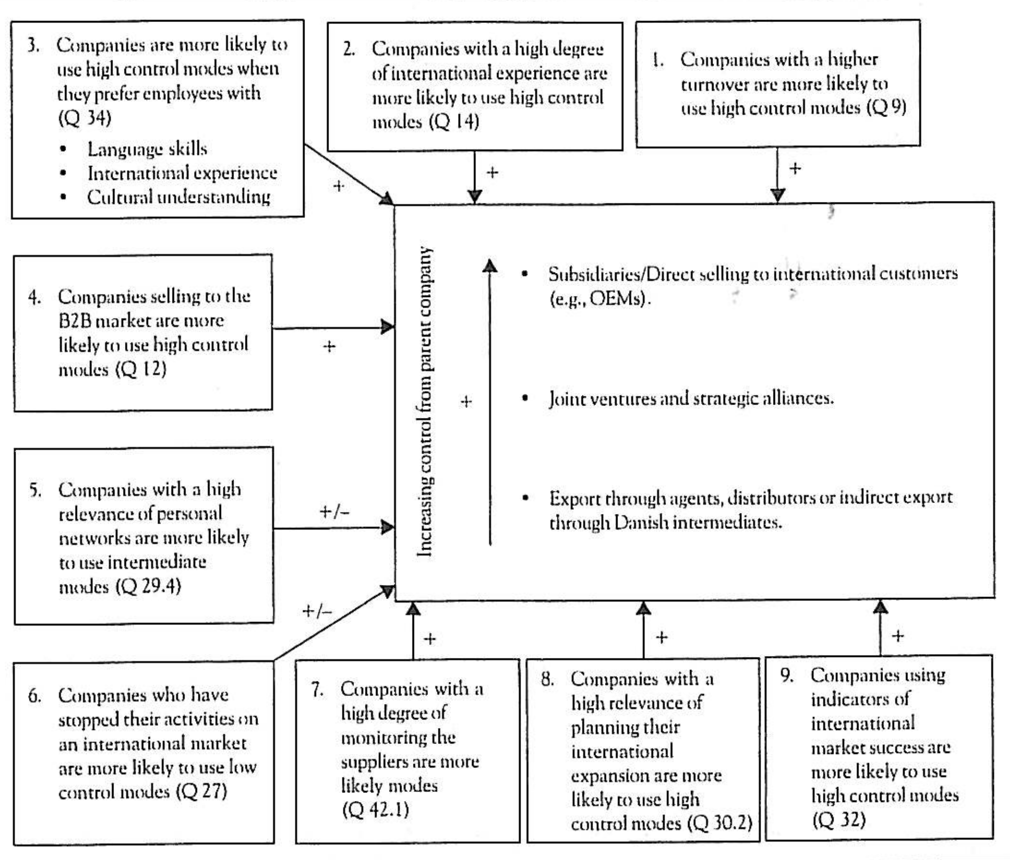
In many SMEs, managers mostly use their intuition in evaluating the performance of their export activities, whereas in larger companies with more usage of high control modes, there is a tendency to use formal control methods. When indicators such as market share or profit are used for entry mode decisions, the company might prefer a fully-owned marketing subsidiary as entry mode into a certain foreign country (Koch, 2001). Consequently, a further aspect of planning and controlling international activities is to consider if the companies use indicators to measure the result of the international activities. In a study of the internationalization of Spanish hotels by the use of high control modes (FDIs/subsidiaries), Berbel and Ramirez (2011) found that there was a significant influence of FDI as an entry mode to the use of indicators as a measure for export performance. This leads us to the following hypothesis:

> H_9: *Companies using indicators of international market success are more likely to use high control modes.*

The Research Model

Figure 1 shows the supposed connection between the dependent variable (choice of entry mode) and the independent variables, which are also represented by the Hypotheses H_1-H_9. Appendix shows how the different hypotheses are operationalized in form of the questions in the questionnaire, that the companies filled out. The question numbers refer directly to the hypothesis number.

Figure 1: Research Model



Methodology and Data Collection

A positivistic paradigm frames the work employing quantitative research techniques. The unit of analysis is the Danish SME. The survey was conducted in collaboration with the Confederation of the Danish Industry (DI)[1] and The University of Southern Denmark. The investigation period was from 2002 to 2006. A random sample of 396 DI member companies was selected from the database of DIs member companies. This database consists of approximately 10,000 Danish companies within the scope of manufacturing, trade and service. The reason for choosing the DI member database for the selection of the respondents was firstly, because of the direct access to updated contact details of the companies, and secondly, because the database is a representative sample of the typical Danish companies.

The questionnaire consisted of 80 questions focusing on the internationalization process of the company. The questions were divided into the categories: general company data, marketing, R&D, production, finance, human resource, and procurement.

[1] The confederation of Danish Industry (DI) is a private organization currently funded, owned and managed entirely by 10,000 member companies within manufacturing, trade and service industry.

The following procedure was used to collect data (Jusjong, 2003):

- The survey was conducted online. A link to the questionnaire was sent via direct e-mail to the CEO, the owner, the export manger or the international marketing manager of the company.
- Two weeks after the first e-mail, a reminder e-mail was sent to the companies who had not responded.
- One week after the reminder e-mail, a telephone call was made to the SMEs that had still not responded.
- In order to get a higher response rate, a new sample of 234 DI member companies was selected. The new 234 companies followed the same data collection procedure as the first 396 companies. Reasons for not participating in the survey could primary be found in the following two causes:
  - Managers' lack of time to respond or/and.
  - The questionnaire was not relevant to the company because of no or limited international activities.
- Finally, the research sample consisted of 170 Danish SMEs who answered the questionnaire, and the response rate was 27%.
- More general results of the investigation are as follows:
  - 82% of the respondents sell their products on the business to business market.
  - 81% of the responding SMEs have more than eight years export experience, and 46% of the respondents export to 10 markets or more.
  - 42% of the responding SMEs state that their company's export share was 50% or more of the its total turnover in the period considered.
  - The responding SMEs primary motives for internationalization were risk diversification and growth opportunities.

Data Analysis

The objective of this study is to determine the factors influencing the choice of foreign entry modes by Danish companies, seen in a control perspective. A model showing the factors influencing the choice of entry mode is proposed along with nine hypotheses. The entry modes are categorized into three groups depending on the level of control that the company has over its activities abroad:

1. High Control Mode: Direct selling to international customers (e.g., OEMs)/ subsidiaries.
2. Intermediate Modes: JVs and SAs.

3. Low Control Modes: Export through agents, distributors or Danish intermediates.

Direct selling refers to using their own sales force and having direct contact to the buying foreign customer. The Danish SME has a high degree of control over its activities.

JVs and SAs refer to the in-between high and low control modes, where the partners agree to share different resources, technology and profits over a longer time period.

The low control mode, refers to export through agents and distributors using an independent intermediate in the foreign markets or export through a Danish intermediate using a Danish based independent agent, distributor or commercial office. In this setup the Danish SME has low degree of control over its activities.

In total there were 170 companies, but each firm could give more than one answer for the entry mode choice. Hence, each company used in average 2.11 entry modes adding up to 359 total answers.

In a first step of the data analysis the correlation among the dependent and independent variables was measured. In total 146 variables were tested according to the questions in the original questionnaire. Table 1 shows the dependent variables and independent variables with significant correlation coefficients and where an influence on the entry mode choice was assumed. On the basis of a multiple correlation analysis, only variables with a significant value were selected to investigate its influence on the entry mode choice. The chosen level of significance of 0.12 is quite low to explain dependencies, but also tendencies could be of interest for the study. Positively or negatively correlated variables measure the degree to which a change of one variable is associated with the change of another (Schmidt and Hollensen, 2006; and McDaniels and Gates, 2008). Table 1 therefore serves as indication to the research model which variables have an influence on the entry mode choice.

In a second step all independent variables were investigated in more detail according to the hypotheses. The testing had to be done in different ways of cross-tabulation, because the questions and data were in different formats. In some questions, groupings (e.g., turnover) were used and for others, rating scales or yes/no answers. This is why all hypotheses are listed and interpreted separately as follows.

From Question 9 a slight tendency to support H_1 can be seen from the higher percentage value of 'A' for turnover above 100 Mio DKK (Table 2). No support for H_2 could be found when looking at the results from Question 14 (Table 3).

In order to analyze which employee competencies are important when looking at different entry modes, the mean values were calculated from Question 34 (Table 4). A low mean value represents high relevance of these competencies. Table 4 does not support H_3 but shows a slightly higher importance of all competencies for the intermediate entry mode.

Table 1: Correlations of Entry Modes (Q 26) and Independent Variables

	Q 26_1	Q 26_2	Q 26_3	Q 26_4	Q 26_5	Q 26_6	Q 26_7	Q 26_8	Q9	Q 12_1	Q 12_2	Q 12_3	Q 14	Q 27	Q 29_4	Q 32_2	Q 42_1	Q 42_2	Q 42_3
Q 26_1	1.000																		
Q 26_2	0.109	1.000																	
Q 26_3	–0.150	–0.085	1.000																
Q 26_4	–0.015	0.088	–0.038	1.000															
Q 26_5	–0.016	–0.001	–0.117	0.088	1.000														
Q 26_6	–0.015	0.005	0.046	0.081	0.183	1.000													
Q 26_7	–0.206	0.013	0.096	0.150	0.079	0.114	1.000												
Q 26_8	–0.146	–0.053	–0.158	–0.031	–0.053	–0.019	–0.071	1.000											
Q9	–0.098	–0.029	–0.081	–0.076	0.350	0.245	0.142	0.153	1.000										
Q 12_1	–0.163	0.019	0.032	–0.089	0.019	–0.036	0.141	–0.070	0.184	1.000									
Q 12_2	0.187	–0.045	–0.034	0.079	–0.006	0.082	–0.023	0.052	–0.106	–0.665	1.000								
Q 12_3	–0.057	0.004	0.154	0.062	–0.037	0.119	0.078	–0.046	–0.019	0.264	–0.053	1.000							
Q 14	–0.232	–0.125	0.388	0.071	0.164	0.076	0.398	–0.042	0.120	0.016	–0.005	0.172	1.000						
Q 27	0.081	–0.031	–0.162	–0.033	–0.062	0.002	–0.217	0.090	–0.080	0.008	–0.018	0.018	–0.173	1.000					
Q 29_4	0.054	0.067	0.186	0.177	0.092	0.100	0.065	–0.103	–0.014	0.001	0.047	0.220	0.234	–0.060	1.000				
Q 32_2	–0.083	–0.066	0.105	0.194	0.073	0.304	0.220	–0.063	0.103	0.199	0.023	0.098	0.096	–0.110	0.035	1.000			
Q 42_1	–0.043	0.055	–0.093	0.126	0.171	0.100	–0.004	0.052	0.183	0.084	0.061	–0.050	–0.096	0.028	–0.010	0.089	1.000		
Q 42_2	–0.119	–0.078	0.029	0.067	0.119	0.112	–0.042	0.047	0.184	0.192	–0.097	0.016	0.067	–0.062	0.033	0.007	0.359	1.000	
Q 42_3	0.053	0.037	0.071	0.025	0.101	0.106	0.060	–0.119	0.115	0.173	–0.054	–0.005	–0.034	–0.045	–0.007	0.059	0.205	0.244	1.000

Table 2: H_1 Companies with a Higher Turnover are More Likely to Use High Control Modes				
Turnover	A: High Control (%)	B: Intermediate (%)	C: Low Control (%)	Sum (%)
0 to 99 Mio DKK	40.65	4.21	55.14	100
100 and More Mio DKK	43.21	4.94	51.85	100

Table 3: H_2 Companies with a High Degree of International Experience are More Likely to Use High Control Modes			
Number of Countries Sold	A: High Control (%)	B: Intermediate (%)	C: Low Control (%)
1 to 3	14.75	30.77	16.25
4 to 9	40.16	46.15	35.00
10 and More	45.08	23.08	48.75
Sum	100.00	100.00	100.00

Table 4: H_3 Companies are More Likely to Use High Control Modes When they Prefer Employees with Language Skills, International Experience and Cultural Understanding			
Competencies of Employees	A: High Control	B: Intermediate	C: Low Control
Language Skills	1.89	1.58	1.92
International Experience	3.21	2.50	3.01
Cultural Understanding	3.39	3.33	3.48

The data in Question 12 shows that in all the three entry modes, the products are mostly sold to other businesses. The high values for the B2B market do not support H_4 (Table 5).

Table 5: H_4 Companies Selling Products to the B2B Market are More Likely to Use High Control Modes			
Market for Products	A: High Control (%)	B: Intermediate (%)	C: Low Control (%)
B2C	22.44	29.41	21.90
B2B	63.46	64.71	63.81
B2G	14.10	5.88	14.29
Sum	100.00	100.00	100.00

Even though the absolute figures in Question 29 are much lower, the mean values support H_5. The importance of personal networks for the entry mode choice is on an average higher than for high or low control modes (Table 6).

Table 6: H_5 Companies with a High Preference for Personal Networks are More Likely to Use Intermediate Modes

Mean Values for Importance of	A: High Control	B: Intermediate	C: Low Control
Personal Networks	4.19	4.23	4.19

Slight support for H_6 could be found with regard to Question 27. Companies that have stopped international activities on markets tend to use low control modes, but also companies who answered negatively prefer export modes (Table 7).

Table 7: H_6 Companies Who Have Stopped their Activities on an International Market are More Likely to Use Export (Low Control) Modes

Stopped Activities on International Market	A: High Control (%)	B: Intermediate (%)	C: Low Control (%)	Sum (%)
Yes	44.17	2.50	53.33	100
No	39.43	5.71	54.86	100

Also for H_7 no support can be stated from the Questions 42 regarding monitoring of suppliers, value chain activities and external suppliers. Therefore an entry mode decision does not depend on the extent of monitoring which a company performs (Table 8).

Table 8: H_7 Companies with a High Degree of Monitoring Suppliers are More Likely to Use High Control Modes

Mean Values for Monitoring	A: High Control	B: Intermediate	C: Low Control
Suppliers	4.08	4.38	4.09
Value Chain Activities	3.97	3.92	4.00
External Suppliers	3.27	3.77	3.35

A slight tendency towards low control modes could be identified from Question 32. For Question 30, the answers ranged from 1 to 6, where a higher value indicates a higher relevance of planning the international expansion. Therefore H_8 cannot be supported, but it was found that companies which have planned their international expansion rather use low control modes (Table 9).

For H_9 no support but a slight tendency towards low control modes when using indicators of international market success could be found (Table 10).

Table 9: H_8 Companies Which Have Planned Their International Expansion are More Likely to Use High Control Modes			
Mean Values for Planning of	A: High Control	B: Intermediate	C: Low Control
International Expansion	4.03	4.00	4.11

Table 10: H_9 Companies Using Indicators of International Market Success are More Likely to Use High Control Modes				
Indicators	A: High Control (%)	B: Intermediate (%)	C: Low Control (%)	Sum (%)
Break Even	42	5	53	100
Market Share	41	4	55	100
Profit per Market	43	4	53	100
Sales Volume	44	4	52	100
Competitive Structure	42	7	51	100
Sum	33	0	67	100

Discussion of Survey Results

The only support which could be found for H_5 was where personal networks are used to establish long-term relationships in JVs or SAs. This goes along with the findings of previous research (Lin, 2000; Zhang *et al.*, 2007; and Chen *et al.*, 2009) that in tight local networks, the parent company will select collaborative arrangements in the form of intermediate entry modes.

The tendency found for H_1 gives an indication of how firm size or higher turnover will help a company to invest in foreign countries and use high control entry modes. This assumption was based on former research (Tallman and Lindquist, 2002; Ramón, 2002; Trevino and Grosse, 2002; and Quer *et al.*, 2007a and 2007b) that observed positive correlations between firm size and the degree of market commitment and high control modes. As indicated in H_6, a tendency towards low control entry modes could be found when activities on foreign markets have been stopped previously.

Surprisingly, there was no support for all other hypotheses. Especially for H_8 and H_9 a problem might have been the grouping of direct export and subsidiaries into one category. Whereas, investing in a subsidiary should imply extensive planning and usage of indicators, this would not be required to the same extent for direct selling of products to foreign countries.

As a result, it can be stated that personal networks are of high value when seeking intermediate entry modes to foreign markets. Also high turnover will enable the company to make stronger commitments in foreign markets and use a high control entry mode.

Conclusion

This paper's comprehensive discussion of factors of companies' selection of entry mode has revealed that this process is influenced by a larger number of internal factors than most previous studies assumed.

Literature reviews show that many managers of SME mostly use their intuition in the selection of the entry mode, whereas larger companies prefer a higher degree of control. Consequently, we use the control perspective as the deciding factor for the categorization of the entry modes into the three groups:

1. High control mode: Direct selling to international customers (e.g., OEMs)/ subsidiaries;
2. Intermediate modes: JVs and SAs; and
3. Low control modes: Export through agents, distributors or Danish intermediates.

Our results show that the most deciding factor for the choice of high control entry mode (subsidiary) was the factor 'turnover'. The factors: personal networks and the interruption of the international activities were the most significant factors for the choice of intermediate mode (JVs and SAs). The other factors considered did not show any significant correlation to the choice of entry mode.

Implications and Perspectives: Two important implications can be drawn from the findings of this study from a managerial perspective.

1. Companies should take many different factors into consideration when deciding how to enter a specific market since the choice of entry mode will affect the export performance.
2. Companies should be more aware of the value of personal networks especially in regard to the selection of partners in JVs and SAs. A broader approach to this partner selection will extend the access to network resources.

Limitations and Directions for Future Research: Despite the comprehensive research of the factors deciding the entry mode, there are some important limitations of the current work and consequently, directions for future research.

- The first limitation concerns the type of study carried out since the data was collected at a specific time and it could be more appropriate to conduct a longitudinal study regarding the choice and shift in entry mode. This would allow us to see what affected the companies' entry mode strategy and its performance in international markets.
- The second limitation concerns the sample used. The investigation was based on a single country, Denmark. Future studies based on samples from various countries would be preferable.

- Thirdly, we mainly focused on the internal factors which determined the choice of the entry mode. Next step would be to include external factors such as psychic distance and perceived risk to the specific foreign market.
- Future research could include the connection from choice of entry mode to export performance in terms of revenue and bottom line results. This would provide international marketing managers with further directions for choosing the most profitable entry mode.

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Appendix

The question number pertains to the Hypothesis number in Figure 1.

Independent Variables

1. What was the company turnover in mill. DKK last year?

   0-10 mill. DKK ☐

   11-49 mill. DKK ☐

   50-99 mill. DKK ☐

   100 mill. DKK and more ☐

2. How many countries do you export your product to?

   0-3 countries ☐

   3-9 countries ☐

   More than 10 countries ☐

3. Please evaluate these important employee competences that you emphasize when you internationalize your business? (please rank each competence from 1 = least important to 5 = most important)

   Language skills ☐

   International experience ☐

   Cultural understanding ☐

Appendix (Cont.)

4. Which market is your company's products directed to?

   B2C (Business-to-Consumer market) ☐

   B2B (Business-to-Business market) ☐

   B2G (Business-to-Government market) ☐

5. To which degree does the company use personal relations/networks for entering new markets? (please indicate the degree from 1 = Not important, 5 = Very high degree)

   ☐ ☐ ☐ ☐ ☐

6. Has the company previously stopped its activities in an international market?

   Yes ☐ No ☐

7. To which degree does the company monitor its international suppliers? (please indicate the degree from 1 = Not important, 5 = Very high degree)

   ☐ ☐ ☐ ☐ ☐

8. To which degree has the company planned its international expansion? (please indicate the degree from 1 = Not important, 5 = Very high degree)

   ☐ ☐ ☐ ☐ ☐

9. Which indicators uses the company for measuring international market success? (more answers are possible)

   Break even ☐

   Market share ☐

   Profit per market ☐

   Sales volume ☐

   Competitive structure ☐

Dependent Variable

Which entry modes does your company primarily use?

Subsidiaries/Direct selling to international customer (e.g., OEMs) ☐

Joint ventures and strategic alliances ☐

Exports through agents, distributors or indirect exports through Danish intermediaries ☐

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