UNIVERSITY OF VAASA
FACULTY OF BUSINESS STUDIES
DEPARTMENT OF MARKETING

Fredrick Albert Uhomhoabhi

THE IMPACT OF FIRM RESOURCES ON INTERNATIONAL ENTRY MODE STRATEGY: THE MODERATING EFFECT OF COUNTRY SPECIFIC RISK FACTORS

Master's Thesis in Marketing

International Business

Vaasa 2008

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS

ABSTRACT

1. INTRODUCTION 13

1.1. Background 13

1.2. Objectives and Research questions of the study 15

1.3. Delimitations 17

1.4. Significance of the research 18

1.5. Prior studies 18

1.6. Structure of the study 21

2. FOREIGN MARKET ENTRY MODES 24

2.1. Foreign market entry modes classification 24

2.2. Characteristics of entry modes 26

2.2.1. Export entry modes 26

2.2.2. Contractual entry modes 27

2.2.3. Investment entry modes 29

3. FIRM RESOURCES AND CAPABILITIES 34

3.1. The resource based theory 34

3.2. The competitiveness of firm resources and capabilities 36

3.3. Types of firm resources 40

3.3.1. Tangible resources 41

3.3.2. Intangible resources 42

3.4. The influence of firm resources in entry mode strategy 49

3.4.1. Firm size 49

3.4.2. International Experience 51

3.4.3. Firm's unique resources 52

4. THE MODERATING EFFECT OF HOST COUNTRY RISK 0N FIRM RESOURCES AND ENTRY MODE 55
4.1. Country Risk 55
4.1.1. Political risk 57
4.1.2. Economic risk 62
5. RESEARCH METHODOLOGY 66
5.1. Research design 66
5.2. Sampled population 67
5.3. Variables and measures 70
5.4. Test statistics 75
5.5. Decision rule for test 77
5.6. Validity and reliability of the present study 78
6. EMPIRICAL ANALYSIS AND FINDINGS 82
6.1. Background of analysis 82
6.2. The impact of firm resources on entry mode decisions 87
6.2.1. The moderating effect of political risk on firm resources and entry Mode 100
6.2.2. The moderating effect of economic risk on firm resources and entry mode 108
7. SUMMARY AND CONCLUSIONS 119
7.1. Summary 119
7.2. Conclusions 121
7.2.1. Managerial Implication 129
7.2.2. Future research 129

REFERENCES 131
APPENDIX 1. Questionnaire 139
APPENDIX 2. Survey cover letter 144
APPENDIX 3. Reliability test 146
APPENDIX 4. Host country by entry mode 152

LIST OF FIGURES

Figure 1.	Structure of the study	23
Figure 2.	Conceptual Framework for the Study	65
Figure 3.	Chart representing the relationship between firm size and entry mode	88
Figure 4.	Chart representing the relationship between international experience and entry mode	90
Figure 5.	Chart representing the relationship between firm's unique resources and entry mode	91
Figure 6.	Chart representing the moderating effect of political risk on firm size and entry mode	102
Figure 7.	Chart representing the moderating effect of political risk on international experience and entry mode	105
Figure 8.	Chart representing the moderating effect of political risk on firm's unique resources and entry mode	108
Figure 9.	Chart representing the moderating effect of economic risk on firm size and entry mode	111
Figure 10.	Chart representing the moderating effect of economic risk on international experience and entry mode	114
Figure 11.	Chart representing the moderating effect of economic risk on firm's unique resources and entry mode	117
Figure12.	Summary of the findings	128

LIST OF TABLES

Table 1.	Classification of foreign market entry modes and their characteristics	32
Table 2.	Capital Framework for New Ventures	47
Table 3.	Research response rate	69
Table 4.	Variables and their operational measures	74

Table 5.	Reliability analysis for firm's unique resources	81
Table 6.	Reliability analysis for political risk	81
Table 7.	Reliability analysis for economic risk	81
Table 8.	Host countries	83
Table 9.	Host countries by entry mode	84
Table 10.	Number of Employees category by firm size	85
Table 11.	Firm size	85
Table 12.	Business sector	86
Table 13.	List of indicators for firm's unique resources	92
Table 14.	Result of Chi-Square test for firm size and entry mode relationship	94
Table 15.	Contingency table for firm size and entry mode relationship	95
Table 16.	Result of Chi-Square test for international experience and entry mode relationship.	96
Table 17.	Contingency table for international experience and entry mode relationship	97
Table 18.	Result of Chi-Square test for firm's unique resources and entry mode relationship	98
Table 19.	Contingency table for firm's unique resources and entry mode relationship	99
Table 20.	Entry mode by firm size with a relative political risk	101
Table 21.	Entry mode by international experience with a relative political risk	104
Table 22.	Entry mode by firm's unique resources with a relative political risk	107
Table 23.	Entry mode by firm size with a relative economic risk	110
Table 24.	Entry mode by international experience with a relative economic risk	113
Table 25.	Entry mode by firm's unique resources with a relative economic risk	116
Table 26.	Summary of empirical results of the hypotheses in the study	118

ABREVIATIONS

ANOVA	Analysis of Variance
CEE	Central Eastern Europe
FDI	Foreign Direct Investment
HDS	Honestly Significant Difference
IO	Industrial Organization
JV	Joint Venture
MNC(s)	Multinational Corporation(s)
PEU	Perceived Environmental Uncertainty
RBV	Resource based View
ROI	Return on Investment
SPSS	Statistical Package for Social Sciences
SWOT	Strength Weakness Opportunity and Threat
TC	Transaction Cost
US	United States
WOS	Wholly Owned Subsidiary
WTO	World Trade Organization

UNIVERSITY OF VAASA
Faculty of Business Studies
Author: Fredrick Albert Uhomhoabhi
Topic of the Thesis: The impact of firm resources on international entry mode strategy: the moderating effect of country specific risk factors
Name of Supervisor: Minnie Kontkanen
Degree: Master of Science in Economics and Business Administration
Department Department of Marketing
Major Subject: Marketing
Program: International Business
Year of Entering: 2006
Year of Completion: 2008 Pages: 151

ABSTRACT:

The main focus of this study was to examine the impact of firm resources on entry mode strategy and to explore the possible moderating effect of country specific risks on the relationship between firm resources and entry mode amongst Finnish firms with international operations.

In the theoretical part of this study, the resource based view concept was applied through which the conceptual framework for the study was developed, which led to a more focus on some firm resources namely firm size, international experience and firm's unique resources; and some country risks namely political risk and economic risk. However, ceteris paribus, this approach was also complemented by other theories for example, transaction cost theory, industrial organization theory, organization capability theory etc.

Over 2.000 web mails were sent to key decision makers of 96 Finnish firms with international operations. The quantitative data collected was tested with, first was the Chi-Square test method to determine the impact of firm resources on entry mode strategy. The second, a descriptive analysis, to determine the moderating effect of country risk on the relationship between firm resources and entry mode.

The findings from the study showed that, in line with the resource based theory, not all firm resources could drive a firm strategy under certain country risk condition. Large firms were moderated in terms of high resource committed entry mode with high political risk, but could strive in high economic risk environment. Firms with high international experience and high firm's unique resources reduced the propensity to drive their strategy in terms of high resource commitment in both political and economic risky environment, however, international experience seem to have partial support in this regard.

KEYWORDS: Country risks, Entry mode, Firm resources

1. INTRODUCTION

This chapter is intended to give introduction to the main research area through the background of the study, followed by objectives and delimitations. Other areas to be discussed in this chapter are significance of the study, prior studies, and structure of the study.

1.1.Background

The study of foreign market entry has taken different dimensions over the years. According to Root (1994), international entry strategy helps firm to set objectives, goals, resources and policies in order to guide the firm's activities to reach sustainable growth in the international market.

Barney (1991:101), reiterating other scholar's thought about resources, sees resources as strength that firm can use to conceive and implement strategies, which are the attributes that help firm to carry out value-creating strategies. Barney (1991) distinguished between resource homogeneity and mobility; and resource heterogeneity and immobility. His emphasis was that in a particular industry where resource is homogenous and mobile, a firm that is able to conceive and implement an entry mode strategy, other companies in that industry are capable of implementing such strategy since in that industry, there is nothing like uniqueness in firm resources because of the homogeneity nature of the industry. When a firm exist within a heterogeneous industry, in term of resource control, there is the possibility of other firm not able to imitate or duplicate entry mode strategy implemented by a rival firm. Mahoney and Pandian (1992) emphasized that firm's unique capabilities in terms of technical know-how and managerial ability is important source of heterogeneity that may result in sustain competitive advantage.

Taylor, Zou and Osland (2001), maintain that in recent decades, globalization of the world business has forced companies to develop strategies for entering and expanding into new markets. Similarly, Ekeledo and Sivakumar (2004) posit that foreign market selection is highly significant for firm's future performance and survival in the international market. Thus, the basis for foreign market selection is consequent upon firm's resources and environmental factors in which firm is expanding to. Analysing firm's internal environment helps to discover firm's core competencies that lead to competitive advantage over rival. Barney (1991) argued that the ability of firm to sustain competitive advantage is by implementing strategies that exploit their internal strength through reposing to environmental opportunities while neutralizing external threat and avoiding internal weakness. Thus the internal strength and weakness of the firm is the resources and capabilities of the firm.

Many conceptual frameworks have been developed, and empirical findings analyzed. Most have viewed international market entry from the perspective of resource based framework (Barney 1991; Ekeledo 2000; Fahy 2000; Ekeledo & Sivakumar 2004); the transaction cost perspective (Madhok 1997; Erramilli & Rao 1993; Brouthers & Nakos 2004); organizational capability (Erramilli, Agarwal & Dev 2002). More so, an integrated approach to entry mode strategy has also been adopted in determining the choice between various market entry modes (see Quer, Claver & Rienda 2007). The results of these findings have been of varying implications. This study has focused on resource based approach to determine what firm resources would enhance the use of high resource committed entry mode while considering the moderating role of foreign market specific risk factors – country risks.

The findings of this study will go a long way in helping managers to make appropriate decision in different host country's situations.

1.2.Objectives and research questions of the study

The objectives of this study is to contribute to the stream of literatures regarding foreign market entry mode decisions, and to investigate what firm resources will cause the used of high resource committed entry mode choice and what is the possible moderating effect of country specific risk factors?

Erramilli and D'Souza (1995:47) argued that there is lack of clarity whether strength of the relationship between foreign market uncertainty and FDI will remain the same in all situations. They added, however, that there is growing evidence that firms may not respond to uncertainty with equal intensity in all situations. According to Erramilli and D'Souza (1995), researchers have always argued that amidst foreign market risks (uncertainty), firms reduce the level of resource commitment. However, the relationship between foreign market risks and entry strategy, has had limited view to the general country risk level, without much emphasis on specific variables that constitute country risk, except in some few studies.

The reason for this study is to examine specifically, how firm resources will impact high resource commitment entry mode amidst the moderating effect of specific country risks rather than classifying all variables that ensure risks in foreign market together in terms of high or low country risk because certain country risk might be high on one side, while others might be low on the other side. Since it has been advocated in literature that there is lack of clarity on what strategy will be adopted by firm in different situations, hence there is need to finding out what country risk specific situation would have a moderating effect on the relationship between firm resources and international market entry modes.

To be able to answer the research question, the following sub objectives were developed:

1. To describe the main group of entry modes and their characteristics based on the level of resource commitment and the level of their exposure to country risks.

In the light of the above sub-objective, entry mode will be classified. What characterizes an entry mode choice, which includes the risk exposure level of an entry mode in relation to resource commitment, will be reviewed.
It is important to clarify the readers with these classifications and characteristics of entry mode before going ahead to discuss types of firm resources and the moderating effect of country risk on these resources and entry mode choice.

2. To identify what are the different types of firm resources and whether they influence firm's entry mode selection. The aim of this objective is to find out whether firm resources do have influence on firm's entry mode selection.

In order to understand this, tangible and intangible resources of the firm and the ways by which firm could derive competitive advantage will be reviewed. In addition, resource competitiveness will be looked into, to know whether what scholars have said about firm resources and it's competitiveness in literature can be a facilitator for a firm to use one entry mode strategy while considering the resources it has.

3. To analyze what country risk moderates the relationship between firm resources and entry mode based on the level of resource commitment. Therefore, the issues raised above will be discussed under political and economic risks.

4. To empirically investigate the moderating influence of country risk factors (i.e. political risk and economic risk) on firm resources (i.e. firm size, international experience and firms' unique resources) base on Finnish firms with international operations when deciding entry mode strategy.

1.3. Delimitations

Every research has limitation, this cannot be exception. This research is limited to focusing on some selected firm resources to be tested. According to Ekeledo (2000), firm resources are so many that all can not be exhausted in a single research.

A number of theories have been used to develop and implement entry mode strategy many of which have produced disparate results (Quer, Claver & Rienda 2007). Amongst these theories are the transaction cost theory (TC), the resource based theory (RBV), contingency theory, bargaining power theory etc. Despite these approaches, this study is only carried out from the resource based point of view, while other theories served as complements, through which the conceptual framework for the study was developed, which led to a more focus on some firm resources namely firm size, international experience and firm's unique resources; and some country risks namely political risk and economic risk. The reason why these resources are selected is that various studies have come up with conflicting results. For example Argarwal (1994), Erramilli (1991), Anderson and Gatignon (1986) found a positive relationship between international experience and high resource commitment entry mode. But on the contrary, Chung and Enderwick (2001) found negative relationship. Firm size also has similar conflicting results, see chapter 1.2 and 1.5 for details. Hence the decision to test those resources in this approach to know which prior studies will support the findings from this study.

According to Ekeledo and Sivakumar (2004), the resource based approach suggests that a firm can compete well in a setting when there is conformity between the firm's resources and external opportunity, and that a firm may fully own subsidiary other than joint venture, or franchising, or licensing so long the firm's resources would enhance using such entry mode. Since this study is focusing on firm resources and country specific risk factors (external factors), it is imperative to investigate what firm resources will conform with country specific risk situation in order to use high resource committed entry mode.

Another area of limitation is that this study will only investigate host country specific risk factors, which are political risk and economic risk. The reason is that home country factors as determinant of entry mode strategy of the firm have been studied extensively in various literature, thus this research will investigate only country risk factors regarding country's political and economic risks, which determine entry mode strategy. Besides, this study will only be carried out on Finnish firms with international operations.

1.4. Significance of the research

The significance of this study is to provide understanding about entry modes, firm resources and country risks as they affect each other in management decisions when expanding to foreign markets so as to derive competitive advantage when a particular decision is made. These internal factors (firm resources) and external factors (country risks) have been seen in the stream of literature as influential in entry mode decisions.
This project as a matter of fact tries as much as possible to be useful to managers across various business facets that are researched in this study. Besides, it will also be relevant to host country government in the area of providing enabling environment for businesses in order to attract investors to use an entry mode strategy that will be of great benefit to that country.

1.5. Prior studies

This sub-chapter is basically meant to review previous studies that were used for this study, especially those studies that were use for hypothesis development and empirical analysis.

International entry modes study has received attention from various perspective views. Many of such views were from a single direction, either how firm resources influence entry mode choice or how host country uncertainties influence entry mode choice. However, there have been few cases in the field of strategic management and international marketing

that have looked into interaction and moderating effects of country risks visa-viz firm resources.

Brouthers and Nakos (2004), note that previous studies provided empirical evidence on the relationship between entry mode selection and environmental uncertainty. Many of such studies have been based on industries as determinant of entry choice, of which there have been variations in these findings, without inclusion of firm resources as major influences amidst country risks (uncertainties).

One of the first international entry mode models was developed by Stopford and Wells (I972). They argued that choice of entry mode was contingent upon the firm's international experience and product diversification.

Johanson and Vahlne (1977) developed the theory of internationalization, which postulates that a firm with limited market knowledge will choose to export, since lack of knowledge about a foreign market creates uncertainty and risk. This was termed the stage model of internationalization, where firm adopt in these stages the following choices: (a) no regular export, (b) export via agents, (c) sales subsidiaries, and (d) overseas production (FDI). According to Agarwal and Feils (2007), political risk as part of the broader market (or country) risk factors has been found missing from the stages model of internationalization. This of course is one or the arguments in this study that many research in the past have only considered in singular point of views a determinant of entry mode choices made by firms, without also considering the role of other factors in interactions, which could be contributor. For example, the internationalization theory is based on international experience of the firm, which is one of the firm’s resources being studied in this project. One criterion used to measure international experience in this study is the geographical spread, though it might not be said to be similar to stage model since the entry mode choice can be either equity mode or non-equity mode during expansion, but they can be said to be related in the sense that the international experience based on geographical spread ranging

from no prior international operation through operation in Europe to operation in every continent.

Gatignon and Anderson (1988) in their study on US based manufacturing firms reported that in a low market uncertainty environment, firms prefer equity mode, while non-equity mode is preferred where environmental uncertainty is high. Erramilli and Rao (1993) also found similar result as that Gatignon and Anderson (1988), which was also carried out on US based service firms.

Amongst the streams of studies that have contrary results to the above findings is the study carried out by Burgel and Murray (2000). The finding shows that there is no significant relationship between country risk and entry mode choice for companies that are just starting up international operations in hi-tech industry.

Hennart (1991) in a study of Japanese subsidiaries in the USA found no significant relationship between neither relative nor absolute venture size and entry mode choice. But Taylor, Zou and Osland (2000) found positive relationship between firm size and high resource committed entry mode choice. Although the findings reported that the Japanese MNCs prefer high resource committed entry mode choice in high risk countries, but it was not the interactive effect of country risk and firm resources (firm size) that was conducted. This seems unclear as some other factors might also be responsible for high resources commitment entry mode preferred by the firms studied.

Erramilli and D'Souza (1995), one of the few studies that have come up with entry modes and the moderating effects of environmental uncertainty and firm resources, carried out their studies on US service firm. Their study revealed that large service firms (capital intensive firm) are likely to use high resource committed entry modes in high risk countries. Though they submitted that the result of their studies is generalizeable, but the extent to which this can be generalized is unclear especially when manufacturing firms were not involved in their study. Besides, the study was conducted on US firms, and it was firm resources that serve as moderator on country risks.

Meanwhile, Rasheed (2005) demonstrated moderating effects of country risk on entry mode and performance. The moderating effect (interaction) was created by country risk (uncertainty) and entry mode to analyze the effect on firm's performance. One important aspect of their study, however, was the recommendation for future research, which states that an aspect of proprietary know-how should be studied, hence in this present research, proprietary know-how and tacit know-how were termed as firm's unique resources - see details in chapter 3 and 4.

1.6.Structure of the study

The structure of study is divided into chapters which are made up of four main parts, namely the introductory section, the theoretical framework, the empirical section and the conclusions, as shown in figure 1 below. The structure is discussed below.
The first chapter is the introduction, which is the introductory section. This part is designed to describe the preliminary issues about the present study. It comprises the background of the study, which tries to showcase what the study will be about. This section will also declare the research objectives within which the research question will be introduced, followed by the delimitations. Other issues this section will look into are the significance of the research; and the research structure.

The second chapter discusses foreign market entry modes. The chapter was introduced by first given a definition of entry mode, followed by entry mode classification. Next to be discussed hers is the characteristics of entry modes. The third chapter, since the study is intended to be conducted deductively, which has to do with testing already existing theory, a body of existing literature of the concern, will be reviewed. Here, the concept of resource based view will be discussed in this case literature about the competitiveness of firm resources and capabilities will be reviewed. Moreover, types of firm resources will be discussed. This chapter ends with the development of the first sets of hypotheses regarding the underlying issues about the impact of firm resources on international entry mode

strategy. Chapter 4 discusses country risk factors affecting entry mode strategy as has been conceptualized by previous literatures will be reviewed, and the influence of these country risk factors on resource commitment will be evaluated and hypothesis will be developed. The above chapter 2, 3 and 4 constitute the main theoretical framework for the study.

The next chapter is chapter 5, which discusses the research methodology for the study. In summary, this chapter handles the research design; sampled population; variables and measures, the test statistics including the decision rule for the testing; the validity and reliability of the adopted method. Chapter 6 presents empirical analysis and findings. Here there will be background analysis of research, the result of the tested hypothesis will be presented and interpreted.

The above chapter 5 and 6 represent the empirical section of the study. The next chapter, chapter 7, summarizes the research findings. It will also show the implications of the finding, where managerial implications will be identified, and discusses future research implications. This makes up the conclusions section of the study.

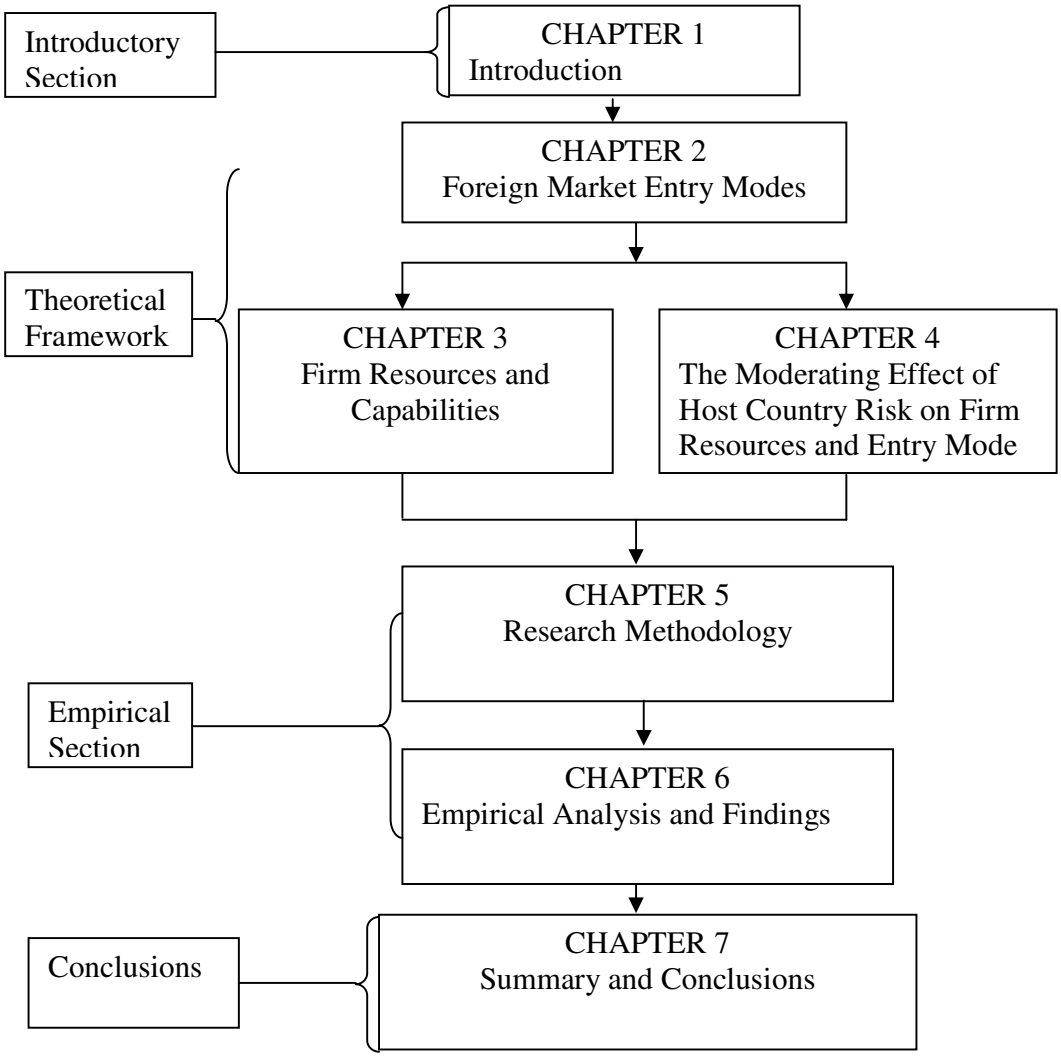

Figure 1. Structure of the study

2. FOREIGN MARKET ENTRY MODES

Root (1987) defined entry mode as "*an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country"*. It is an institutional arrangement for organizing and conducting international business transactions such as contractual transfers, joint ventures, and wholly owned operations (Root 1987; Erramilli & Rao 1993). The entry mode that a firm may prefer to choose as the method of its foreign operation will determine the level of involvement, control, risk, and resource commitment (Anderson & Gattignon 1986; Erramilli & Roa 1993; Ekeledo 2000). Wind and Perlmutter (1977) maintained that the choice of market entry mode has great impact on international operations, which can be viewed as a prime issue in international marketing. A firm can decide to employ any of the operation modes, which range from exporting to wholly owned subsidiary with varying degrees of resource commitment as well as risk exposure (Douglas & Craig 1987; Ekeledo 2000). Similarly, the degree of resource commitment determine the level of involvement in the marketing activities, therefore, the level of involvement means the level of firm's participation in the target foreign market (Erramilli & Rao 1993). In the same way, Hill, Hwang and Kim (1990:118-119) refer resource commitment as dedicated assets that cannot be redeployed to alternative uses without cost (lost of values). Hence in this study, entry mode is based on the level of resource and the level of country risk exposure, which is in consonant with the classification in literature. In the following sub chapter, the way foreign market entry modes are classified will be discussed.

2.1. Foreign market entry modes classification

In considering foreign market entry mode, firm faces two fundamental decisions. First, it has to choose the level of involvement or control over local engagement. Second, it has to decide the mode of entry. Thus, whether to engage on equity-based venture, such as partially owned business (joint venture) or wholly owned business, or non-equity venture

such as licensing, franchising etc. The choice of the level of involvement is reflected in the amount of risk exposure. The higher the level of involvement, the higher the resource commitment as well as higher risk involves and returns (Anderson & Gatignon 1986).

Root (1994) classified foreign market entry mode into export entry modes, contractual entry mode and investment entry mode. Similarly, Luostarinen and Welch (1990:234) classified foreign market operations on the basis of direct investment context. First are the non-direct investment operations (NIOS), which includes export operations, manufacturing contracts franchising etc., and second, direct investment operations (DIOS), which includes marketing units, service units, sales units, manufacturing units, etc. In addition, Luostarinen and Welch (1990:235) further extended these classifications on the basis of functions. These includes non-direct investment marketing operations (NIMOS), non-direct investment production operations (NIPOS), direct investment marketing operations (DIMOS), and direct investment production operations (DIPOS). The major difference in Root (1994), and Luostarinen and Welch (1990) entry modes classification is that the later classified foreign operation mode under two heading and later combined them based on functions, otherwise the contents are the same. These various classifications are characterized with different levels of resource commitment and country risk exposures. Meanwhile, the classification of entry mode shown in table 1 is based on the work of Root (1994), Ekeledo and Sivakumar (1998), and Erramilli and Rao (1993).

From table 1 below, it can be noticed that different entry modes requires different level of resource commitment and involvement or control, and the risks also vary in terms of political risk and economic risk (Anderson & Gatignon 1986; Root 1987; Ekeledo 2000).
Agarwal and Ramaswami (1992) explained that the degree of control and level of resource commitment have been recognized as important variables in the foreign market entry mode decision.

2.2.Characteristics of entry modes

Foreign market entry mode has mostly been characterized in literature by the level of involvement or control (Erramilli & Rao 1993; Anderson & Gatignon 1986; Ekeledo, 2000; Root 1994). Below is various entry modes discussed based on the above argument.

2.2.1. Export entry modes

For early stage of manufacturing firm internationalization, exporting is one of the common ways of firm's business operation (Luostarinen & Welch 1990). Root (1994) argued that exporting is confined to physical products because the company's final or intermediate products are manufactured outside the target country and thereafter transferred to it by exporting.

Export entry mode consists of indirect, direct agent, distributor, and direct branch/subsidiary. These two modes of entry under export entry mode have different impact as to the level of resource commitment ant country risk exposure.

Indirect and direct agent/ distributor

Indirect exporting takes place when firm is not directly involved in exporting activities but another firm in the home country undertakes it for the firm (Luostarinen & Welch 1990). Indirect exporting uses intermediaries who are located in the company's home country and who take responsibility to ship and market the products.
Direct agent/distributor on the other hand, the producer firm does not use home country middlemen. In this case the exporting company is directly involves in export activities with its agent/distributor (intermediaries) in the target country.

Indirect and direct agent/ distributor have lower resource commitment and low political and economic risk exposure than direct branch/subsidiary export mode. The level of firm's

involvement in the foreign activities is as well low, thus is flexible to withdraw from the market in the advent of critical risk exposure.

The Direct branch/subsidiary

Direct branch/subsidiary is another form of direct exporting. As opposed to direct agent/distributor, the exporting company engages in exporting activities directly by establishing own subsidiary or branch in the target foreign market. The Direct branch/subsidiary involves higher resource commitment and political and economic risk exposure than Indirect and direct agent/ distributor export mode since it is an investment mode that requires sole control over the subsidiary. Similarly, the exporting activities would require continuous traveling and contacts with markets and final consumers since there are no intermediaries involved.

2.2.2. Contractual entry modes

The second group of entry mode classification is the contractual mode of entry, which includes licensing, franchising and service contracts, management contracts, construction/ turnkey contracts, contract manufacture. Root (1994) explained that contractual entry modes are long-term non-equity association between an international company and an entity of the target foreign market, which involves the transfer of technology or human skills from the former to the later. These sets of contractual entry modes are characterized by various levels of resource commitment and country risk exposures.

Licensing and franchising

Licensing and franchising are similar but differ in the right that is granted to the licensee or the franchisee. Root (1994) defined licensing as a contractual arrangement in which the owner of a protected asset (the licensor) grant another entity (the licensee), for some consideration, the right to use the asset in producing or distributing a good or service. The

asset that is licensed out can be tangible or intangible such as trademark, patent, trade secret, or production process (Ekeledo 2000).

Licensing and franchising are regarded as the lowest level of resource commitment and involvement, the reason is that licensing or franchising is a non-direct investment operation mode (see Ekeledo & Sivakumar 1998: 279). According to Luostarinen and Welch (1990:246), the political risk exposure is very low, but they have the highest level of disseminating risk, which firm would want to avoid, and embark on sole ownership entry mode if it wants to protect its core competencies. For example, Sony is successful worldwide today because of the transistor technology license it got from AT&T; that is why licensing could become very expensive to the licensor (Ekeledo 2000). The reason is that the licensee could turn out to use the licensed asset to develop its own technology and becomes a rival to the licensor. However, the country risk exposure of licensing and franchising such as political or economic risks is low. According to Ekeledo (2000), franchising is a form of licensing with the franchisee being a legal independent entity that is given the right by the franchisor to do business under his (franchisor's) name or trademark for a consideration of fees, royalty or profit sharing. However, the franchisor has greater control over the franchisee than as it is in the licensing agreement. Yet the disadvantages are similar.

Service contracts, management contracts, construction/ turnkey contracts, contract manufacture

Service contracts, management contracts, construction/ turnkey contracts, contract manufacture are grouped as having the same level of influence in international business operations in this study. The reason is that, these entry mode strategies activities are carried out by which the contractee vests the power of managing a particular operation on the contractor, and for a specific period. However, for example, service/management contract is mainly related to service activities (Ekeledo 2000), e.g. in the area of tourism/hotel management; public utility/service industries, especially when the foreign country have bad

management; etc. Contract manufacture on the other hand is related to manufacturing activities. But Luostarinen and Welch (1990:111) argued that contract manufacturing is just as readily applicable in many service sector e.g. fast food operations.

Meanwhile the turnkey contract is a project operation by which in the contract, one party is responsible for the setting up a plant and putting it into operation especially for the purpose of providing technology and know-how, basic design and engineering, supply of complete plant and equipment, design and commission of civil works, commissioning of total plant facilities up to the start-up stage (Luostarinen & Welch 1990). Unlike licensing or franchising; service contracts, management contracts, construction/ turnkey contracts, contract manufacture require higher level of involvement and resource commitment, but have low level economic and political risk exposure.

2.2.3. Investment entry modes foreign

The third category of entry mode classification is Investment Entry Modes. These are equity mode of entry. They include Sole venture and Joint venture.

Sole venture

Sole venture is known to be characterized by full-control ownership (Anderson & Gatignon 1986; Erramilli & Roa 1990). It involves 100 percent level of participation, has the highest level of resource commitment (Ekeledo 2000). Firm exercises the highest level of discretion over sole venture and total control of its foreign subsidiary, but however exposes the firm to the highest level of investment risk (Erramilli & Rao 1990; Root 1994; Ekeledo & Sivakumar 1998; Ekeledo 2000). Erramilli and Rao (1993) noted that sole venture is characterized by asset specificity. Brouthers and Hennart (2007:414) explain that a typical argument used to explain why some firms choose WOS whereas others choose JVs is that firms with substantial exploitable assets choose the former whereas those that seek to acquire assets choose the latter. However, WOS involves a lot of resources commitment,

which leads to exit barrier once firm has entered international market with the mode, and thus having the highest level of political and economic risk exposure, which is due to inflexibility and inability to respond to adverse environmental changes (Hill, Hwang & Kim 1990).

Join venture

Join venture on the other hand involves shared ownership by which two or more independent entities come together and provide resources to support product offerings , and thus exposing each partner's resources to investment risks depending on the amount of share equity it has in the venture (Ekeledo 2000). A joint venture takes place when a long term alliance is formed between two or more firms to establish new venture in which these entities partially own a proportion of the equity capital to enable them exercise some degree of control over the establishment. It follows that the amount of share equity determines the level of involvement or control by each partner. It offers a great opportunity to explore the relative weights of company advantages because it is formed to combine advantages of the partners. Each company makes a contribution to a joint venture in the hope of adding the partner's competence to its own.

Joint venture is divided into majority joint venture, 50-50 joint venture, and minority joint venture. A majority joint venture is when ownership is exerted by having 51% and above of the equity share capital of the new venture, which allows it to have a higher degree of control over the decision making in the venture. 50-50 joint venture connotes that the economic entities involve have equal stake in the venture. There is always a "dead-end street" problems associated with 50-50 joint venture (Dunning 1993). Given equal decision power, it might result in slow and frustrating decision making processes of conflicting of interest as to who makes strategic decisions.

Minority joint venture is another type of joint venture in which MNE has less than 50% stake in the venture. However, the degree of control in decision making depends on the

nature of the contributions in the venture, and varies according to the structure of the equity stake. Dunning (1993: 237) explained that where there are two shareholders and one has minority stake of 49%, the shareholders are likely to manage and organize the activities differently than when there are many minority shareholders. From table 1 below, which is self-explanatory, it shows that the political and economic risks exposure is moderate. Besides it requires higher level of resource commitment and higher political and economic risk exposure compared to contractual mode or export mode of entry mode. But the sole venture amongst all choices requires the highest level of resource commitment, and highest country risk exposure in respect with political and economic risk.

Be that as it may, though the characteristics of entry modes and their influence on resource commitment and country risk could trigger the choice of one entry mode or the other, but entry mode strategy is influenced by different factors. Those influences will be discussed in chapter 3 and 4 respectively.

Table 1. Classification of foreign market entry modes and their characteristics (Adapted from Root 1994; Ekeledo & Sivakumar 1998; Erramilli & Rao 1993)

Entry Modes	**Involvement/Control / Resource Commitment** *(Ranking 1=lowest 7=highest)*	**Cost/ risk exposure to Political risk**	**Cost/ risk exposure to Economic risk**
Export Entry Modes			
Indirect/Direct agent/ Distributor	2	Low	Low
Direct branch/ Subsidiary	4	Moderate	Moderate
Contractual Entry Modes			
Licensing/Franchising	1	Low	Low
Service contracts/ Management contracts/Construction/turnkey contracts/ Contract manufacture	3	Low	Low
Investment Entry Modes (Equity modes)			
Sole venture: New establishment/ Greenfield investment	7	High	High
Sole venture: Acquisition	6	High	High
Joint venture: New establishment/ Acquisition	5	Moderate	Moderate

The above ranking of the level of resource commitment is adapted from Ekeledo and Sivakumar (1998) to suit the purpose of this study. In addition, the risk exposure level based on political and economic risk is also adapted from literature to suit this study, (see Luostarinen & Welch 1990), hence his study bases risk exposure level on high, moderate and low risks.

For this study, entry modes are classified into non-equity entry mode and high resource committed entry mode. The combination is derived from the above classifications of entry

modes, thus the low resources committed entry mode involve export entry modes, except direct branch subsidiary and contractual entry modes these are termed “non-equity modes” because they are non-direct investment modes, and high resource committed mode are the investment entry mode termed “equity mode” including direct branch subsidiary because they are direct investment modes.

The next chapter discusses issues related to resource based view and firm resources.

3. FIRM RESOURCES AND CAPABILITIES

In the previous chapter, entry modes in relation to resource commitment and risk exposure have been discussed. This chapter discusses the resource based theory, which tends to explore its assumptions in relation with the subject of discussion in this present study. Next to be discussed in this chapter is the competitiveness of firm resources and capabilities, followed by types of firm resources. Other issue that this chapter discusses is the influence of firm resources on entry mode strategy.

3.1. The resource based theory

The resource based theory is understood from the point of view that firm's specific resources (assets and capabilities) help to drive business strategy. These assets and capabilities help to determine whether company can outperform its competitor or not (Ekeledo 2000:8).

The resource based theory is seen in literature to view firm differently than the traditional theory, for example, the industrial organisation theory which sees industry as exacting influence on firm's strategy and the strategy that is adopted, thereafter influences the firm's performance (Ekeledo 2000:33). Thus the resource based view theory sees firm from the point of view of assets and capability, which is a source of competitive advantage. And as such, the various resource endowment of the firm determines its strategic market choices.

Furthermore, the resource based theory emphasized that firm does not necessarily avoid opportunism (Conner 1991), but the key theory of the firm relates to its value-creating potential, which falls in line with the view of the industrial organisation (IO) based theory in which the firm is seen as a combiner of production and distribution (Ekeledo 2000). Therefore, the resource based theory view of entry mode choice is that the level of involvement in market entry is consequent upon the resources that such firm has, and that it

could cause competing firm not to employ the same strategy when deciding an entry mode choice since the resource potentials might not be the same.

In short, according to Lev (2001:5-6), the modern economic debate suggests that, first, the world, and particularly global business environment is moving at a speed that clear-cut decisions regarding production are not so easily understood, second, that the traditional economic factors of production (that is tangible resources), no longer form the basis of competitive advantage, thus, third, firm must now compete on the basis of other resources, which are intangible. It is on this note that the resource based view is looking beyond the industrial organisation economic perspective.

Mahoney and Pandian (1992), observed that although the resource based theory is not a comprehensive theory of expansion, it gives a clearer understanding and more generalizable, which therefore complementary to the industrial organisation (IO) theory that forms the bases on which resource based theory is built. In distinguishing resource based theory and IO theory, they noted that the resource based theory explains internal governance mode while IO explains external governance mode. In other words, the resources base theory views the firm's internal environments, which are the firm's assets and capabilities while the IO views the firm's external environment, which is the industry and market. Ekeledo (2000) adopted an integrated approach of firm's internal and external environment. According to him, the firm's internal and external environments would have a moderating effect on firm's rent generating resources. The resource assumption, according to literature, is given the condition that favours foreign market entry mode strategy by wholly owned subsidiary based on the fact that the demand for product is high so as to recoup the high overhead cost of going by wholly owned subsidiary, which when not so, a lower resource commitment mode is preferable (Ekeledo 2000; Anderson & Gatignon 1986). In the following sub-section, the competitiveness of firm resources and capabilities will be discussed. The reason is to further explore how firm resources and capabilities in the light of the previous discussion give firms competitive edge.

3.2. The competitiveness of firm resources and capabilities

Competitiveness is seen as a multi-dimensional concept viewed from three levels. These are firm level competitiveness, industry level competitiveness and country level competitiveness. Firm resources is said to be competitive when these resources give firm more competitive advantage than those of its rivals. Thus the source of competitiveness is derived from assets and processes within a firm that provide it with competitive advantage over its competitors. According to Porter (1998), it is the firms that compete in international market not the nations. He added that the external environmental factors are more or less a uniform play ground for all firm to flex their capabilities. Therefore the resource characteristics of the firm and its position help to identify competitiveness of the firm (Bartlett & Ghoshal 1989; Prahalad & Doz 1987; Prahalad & Hemel 1990).

For example, good managerial (organisational) capabilities could enhance resource competitiveness of the firm. For instance, the case of NEC constituting Computing and Communication (C&C) committee of top management to oversee the development of core products and core competencies, which there after strengthened its position in component and central processor manufacture, thus accumulating a broad array of core competencies through internal collaborative arrangement to multiply internal resources (Prahalad & Hemel 1990). This, of course, is in line with the argument by Ekeledo (2000), in which case he emphasized that specialised assets of the firm serves as source of resource competitiveness. According to him, specialised assets, for example for services, involve high level of professional skills, specialised know-how, or customisation service offering. These are physical or human investment that are of values in arrow range of uses, or to one or a handful of user (Anderson & Gatignon 1986; Erramilli & Rao 1993; Ekeledo 2000), and could make enormous important contribution to firm's performance which is a result of competitive advantage derived from resource competitiveness of the firm. It follows that by building collaboratively, internal resource competencies, for example specialised human assets, that includes special relationships between a firm and its partners, it helps to gain intimate knowledge of the firm's activities and idiosyncrasies, that is high level of professional skills, specialised know-how and so on (Ekeledo 2000).

Prahalad and Hemel (1990) insisted that for resource to be of competitive advantage, it must be valuable. To make resource valuable, firm must harmonize and exploit the reservoir of its capabilities. In other words theoretical or physical knowledge does not by itself provide company with competitive advantage. They added that firm's core competencies are the collective learning in the organisation especially how production skills are coordinated and multiple streams of technologies are integrated, whereby, unlike physical assets, core competencies do not diminish with use but may fade if not used. Thus international market entry may be guided by firm's competencies irrespective of the attractiveness of the market.

Smith (1995) admitted that firm can achieve world-class competitive advantage through effective deployment of capabilities and talents than its competitors. However, Ambastha and Momaya (2004) argue that despite research publication of firm competitiveness and resource implication for competitiveness, firm-level resource competitiveness has yet received practical implication. They continue that among frameworks and model that has been developed regarding the issue of resource competitiveness at the firm-level, the adoption raised questions. One question is how can the framework and model be adopted for a particular firm in a particular stage of development with different capabilities and resource? (Ambastha & Momaya 2004: 53). Thus in relation to this study, what is imminent is what different resources and capabilities trigger high resource commitment entry mode strategy despite country risks.

Different model and frameworks have been used to describe the competitiveness of the firm. For example the resource based view of firm emphasizes firm's strategies, structure, capabilities to innovation, including tangible and intangible resources, which are internal to the firm, but there are also limitations. One biggest limitation to resource based view in the context of competitiveness, according to Ambastha and Momaya (2004:51), is that there may be hardly any framework or model that exist which guide professional to integrate strategy with competitiveness. Besides, the RBV model has also been criticize in this

context for its lack of customer focus, market positioning and its focus on large firms (Ambastha & Momaya 2004, referencing Barney 2001; Mathuy 1999). Notwithstanding, these limitations, resource based view is still one of the widely use literature to analyse firm resources and its competitiveness. By implications, it can be argued that resource competitiveness of the firm has a vital role to play in entry mode decisions of whether to commit resources or not.

Capabilities on the other hand have received a boost in the streams on literature. Madhok (1997) view organisational capabilities critically in the sense that organisational capabilities behaves as both source of competitive advantage and as a constraint which are embedded in the organisation's routine and what it needs to survive a particular market. This therefore means that organisation would carry out action inline with its past experience, and so, firm entry mode strategy is consequent upon the compatibility of its existing routine and those of its need to survive new market (Johanson & Vahlne 1999; Madhok 1997). It follows that firm will be constrained to execute an entry mode strategy when its resources are not compatible with such entry mode, for example, licensing, when the organisation is trying to protect its core competencies from its competitors. According to Teece, Pisano, and Shuen (1990); Madhok (1997), the firm's competitive advantages lie on its capabilities and the strategic deployment of such capabilities on the basis of its significance; rather than the firm's products.

Barney (1991) affirmed that by firm analysing its skills and capabilities it already controls, could lead to expected accurate in terms of earning above normal economic performance. In short, firm's skills and capabilities that exist help to determine its profitability performance in a competitive environment. Besides, firm that is endowed with organisational skills and capabilities such as unique combination of business experience, special manufacturing know-how and team work of managers, the firm has a better potential to implement valuable product market strategies (Barney 1986).

The resource capabilities of the firm are its source of economic rent. According to resource based view theory, a firm will select its strategy to generate rent based on its resource capabilities (Mahoney & Pandian 1992). By analysing firm's strengths and weaknesses, then we can understand the real strength and capabilities of the firm (Barney 1991; Mahoney & Pandian 1992); thus clarifying the SWOT framework. By this analysis, it is note worthy to evaluate the source of firm sustained competitive advantage. In other words, the unique nature of firm's capabilities, which cut across the heterogeneity of the productive service derived from the firm's resources, helps to create the firm's sustain competitive advantage so long those capabilities are imitable by competitors.

However, according to Barney (1991), unless these resource capabilities of the firm are unique and imitable, they can not serve as sustain competitive advantage. Therefore, firm's resources could not be seen to lead to unique capabilities if there is the likelihood that competing firms can duplicate the adopted strategy following the assertion by scholars in various literatures about firm resources and capabilities.

Sustainability of competitive advantage with firm resources can also be likened to how those resources are derived within the organisation. Grant (1991) explains the complexity of firm resource, which is derived from organisational routine, is particularly to the sustainability of competitive advantage. He, however, pointed out that organisational capabilities differ in complexity; some might be achieve from single resources, but noted that other routines require highly complex interaction of different resources. For example, Walt Disney's "Imagineering " capability, which involves the integration of ideas, skills, and knowledge drawn from movie making, engineering psychology and a wide variety of technological disciplines (Grant 1991:123).

Barney (1991:105-112) described the attribute that resource should posses in order to be a source of competitive advantage and be sustained. First, the resource must be valuable. The resource of the firm will be valuable if it helps firm to neutralise threats and exploit opportunities, for instance resource build around reputation – good brand reputation.

Second, the resource must be rare amongst current and potential rivals. The rareness of firm resource is such that its capabilities are not by many others. Third, imperfectly imitable – such that it must be costly to imitate. Fourth, the must be non-substitutable – that the capabilities do not have strategic equivalents, e.g. firm specific knowledge, trusted working relationships between managers and non-managerial personnel in the firm and so on. Importantly, resources are source of firm competitive advantage when certain attributes are fulfilled. Therefore when those attributes are not there, firm may find it difficult to be advantageous.

To this end, should all these resources and capabilities that would lead a firm to gain sustained competitive advantage over its rival lead to choosing and entry mode strategy that requires higher resource commitment or not when there is indeed external threat of country risk? Or what role will country risk play as to when firm is willing to deploy is resource capability during international expansion such that it will want a higher control over its resources because it would not want its rival to duplicate its strategy? For example, the argument in literature also shows that a firm competitive advantage over its rival is not because of it's possession of better resources but the distinctive competencies for a better utilisation of the resources it has. Therefore, it will be revealed thereafter in this study whether firm resources could be a yardstick for why a higher committed entry mode choice will be selected.

The next sub-chapter discusses types of firm resources based on their classifications.

3.3. Types of firm resources

For the purpose of this study, firm resources will be categorised into tangible and intangible resources. However, there are other classifications, for example the economic theory sees firm resources from the perspective of Land, labour and capital. Williamson (1975)

classified resources as both physical and organisational capital. In all these classifications, enormous similarities exist, but for the terminologies.

3.3.1. Tangible resources

Reiterating earlier discussion, firm is made up of a bundle of resources which are tangible and intangible. They are what give firm strengths and generate competitive advantages. Tangible resources of the firm are physical in nature such as land, labour machinery, and raw materials. A tangible resource could be a factory located in a low wage area, a license that would allow a firm to acquire a particular technology, a long-term contract made to the purchase of raw material at affordable rate, firm size comprising of foreign subsidiaries, number of employee etc., are all considered as tangible resources. Human capital in organisation comprise number of employees in that organization, which in turn determine its size. Firm's annual sales turnover is one of the sources of firm's financial capital, which is firm's tangible resource. Number of employees and sales turnover are used to measure the size of the firm (Aulakh & kotabe 1997). Lev (2000) refers to these resources as now, in the new economy, mere commodities which no longer give firm competitive advantages. In other words tangible resources contribute little or nothing to the success of firm in the present day business environment that is very turbulent and drastically changing due to globalisation and technological trend.

The tangible resources are somewhat substitutable. The reason is that they are physical, and can easily be imitated by competitors (Grant 1991; Barney 1991). Wernerfelt (1984) concluded that the availability of substitute resource will tend to depress returns to the holders of the given resources, for example the way electronic and hydraulic skills have eroded the play off to electrical and mechanical skills. Villalonga (2004:209-210) asserts that tangible resources are capitalised and, as such, are recognised as assets and reported on firm's balance sheet; and also noted that tangible assets have fair value, which is the replacement cost of such assets.

Therefore the resource that is tangible is termed simple (Brush et al. 2001). The dimensional scale of simple resources due to tangibility is discrete and property based. Take for instance financial capital, it is tangible and quantifiable. But resource complexity lays mostly in intangibility for example human capital tacit knowledge. The choice of what type of resources should be deployed to entry mode strategy is relative to how the firm apply them in their productive process Brush et al. (2001:67) suggest. Furthermore, they explain that tangible resources based on their applicative process may be utilitarian or instrumental. The utilitarian aspect of resources is when they are applied directly to productive process or combined to develop other resources, e.g. machinery. Instrumental tangible resources are those used to provide access to other resources, notably financial resources which are flexible are used to acquire other resources.

However, it does not mean that it is only tangible resources that are either utilitarian or instrumental. Those characteristics depend on where the resources reside. In other words a particular resource can be utilitarian or instrumental depending on where it resides. It follows that resource could be instrumental or utilitarian upon its application. For instance propriety technology, which is intangible, is instrumental when it resides on individual or utilitarian when it is patented and applied directly to production process.
In the following sub-chapter, intangible resources will be exploited.

3.3.2. Intangible resources

Where does resources competencies of the firm embedded in other to drive appropriate strategy in the international business environment that is very volatile? Is it in tangible resources or intangible resources? Many arguments have been made by scholars with respect to what firm resources could enable firm to break and scale through the challenges of business environment both internal and external. External forces which are the main contingent in this study are somewhat uncontrollable. But it can however be influenced. Therefore, are intangible resources amongst those influencing variables in order to enhance

the preferred international entry strategy of the firm considering the various levels of turbulence in the business environment? Then what are these intangible resources?

Intangible resources are regarded as strategic assets that facilitate the firm's competitive advantages (Barney 1996; Villalonga 2004). They are set of assets that are difficult to trade on, imitate, rare, appropriable, and specialised resources and capabilities. Firm-specific capabilities are often regarded as unique capabilities, which are difficult to duplicate by other rival firms (Madhok 1997; Ekeledo 2000). Examples of intangible resources are proprietary technology, tacit know-how, business experience. These are firm-specific capabilities.

The intangibility of firm specific capabilities is such that they are what firm can do with its enormous assets since they include cognitive process. They include cognitive process because by this firm would be able to understand and translate its tangible assets into action; and thus it is driven by firm's human capital (Ekeledo 2000:52). It is worthy to understand that intangible resources are mostly knowledge based, usually embedded in the firm's routine. They are superior managerial skill and knowledge that distinguish firm from its rivals – that is firm specific capability. Brush, Edelman and Manolova (2002) conclude that human capital and owner/founder and organisational capital of management team, when carefully utilize while focusing on customer is a real competitive strength of firms. The human resources of the firm have direct effect on its market (Brush et al. 2002).

However, the resource based view explains that the heterogeneity of intangible resources, which may take different form. It shows that firms that are successful in must industries possess one or more intangible resources for example technological know-how, patented process or design, know-how share among employees, and marketing assets (Mahoney & Pandian 1992). Furthermore, intangible resources are not physical like tangible resources. They can not be easily measured or ascertained, they are usually not capitalised. In the company's balance sheet, intangible assets are usually not capitalised. (Villalonga 2004) emphasizes that in a firm's accounting statement, intangible assets (resources) are treated

alongside with regular expenses, and they are expensed or written off in the income statement. Grant (1991) argued that intangible asset is probably the most strategically important resources of the firm, however, the financial balance sheet of the firm disregard intangible resources and people-based skills. Thus intangible resources are said to be complex, systematic and knowledge-base. Probably because of the complexity and difficulty in measuring intangible resources that is why accountants fail to recognise them in the firm's balance sheet.

In spite of these characteristics, the intangible resource of the firm can be estimated. It is the result of the difference between a firm's market or stock value and the replacement cost of its tangible assets (Villalonga 2004; Grant 1991). Brush et al. (2001) point out that the complexity of intangible resources can be as a result of the degree to which it can be potentially transformed, combined, or lead to a unique advantage. Tacit knowledge, which is knowledge based on experience is sticky and difficult to transfer. Grant (1991) explained that the heterogeneity and imperfect transferability of most intangible resources precludes the use of market prices; hence it is difficult to measure. In addition to the difficulty in measuring intangible assets using market prices, it is very difficult to imitate by other firms. For instance, shared experiences among team members (know-how) form the basis of more complex resource or capability because the foundation is based on learned understanding. Therefore an intangible asset that is of collective nature is more difficult to imitate, and thus gives firm competitive advantage over its competitors. But intangible resources can only be sustained as competitive advantage when it is rare and imitable when deployed to use (Barney 1991). Barney however concluded that firm can not sustain competitive advantage when strategic resources are evenly distributed among competing firms.

Prominent resources that are intangible are firm human capital used for the creation of organisation. These attribute of individual includes skills, intentions and connecting experience that individual or entrepreneur brings into the firm, for example a new venture would rely on previous experience of the entrepreneur before the firm builds its reputation as additional intangible resource. Second, Brush et al. (1997) identified social capital as one

of the types of firm resources. Brush et al. (1997) argued that social capital can be embedded in human and organisational capital, that not withstanding, it can be reviewed that it is also the human capital that bring with them social capital to the organisation for example ethics, professional connection an so on. Third, organisational capital, which may also, being brought into organisation by entrepreneur, encompasses the skills, knowledge and learning embedded within the firm over time. Tomer (1982:2) explained that organisational capital of the firm is embedded in either organisational relationships for instance, the skills of a particular organisational members, the organisation's repositories of information; or some combination of the two. Then it can be understood from the above discussion that organisational capital is somehow a combination of social and human capital. Some attributes of organisational capital, for example, are core competencies (Prahalad & Hemel 1990).

While some scholars suggest that tangible resources could afford firm with superior position over its rivals, the resource based theory posits that it is only the resources that possess special characteristics, intangible in nature, would offer firm competitive edge over its rival (Barney 1991; Amit & Schoemaker 1993). Lev (2001) however argues that, these conceptualized arguments in literature have little empirical evidence in the stream of resource based view as to which of these resources are more important than the other to drive firm's international strategy. This argument further strengthened the focus of this study on testing firm resource in entry mode strategy and what the role of country risk may be.

In spite of the above classification of resources into tangible and intangible, Brush, Greene, Hart and Edelman (1997) in their study, "resource configuration over the life cycle of ventures", categorized resource type into five configuration, they are physical, human, organisational, financial and social capital.

Brush et al. (1997) streamlined firm resources into the above five categories, according to their configuration. Other early categorization of firm resources classified firm resources

into three categories, that is, physical (inventory and plant), monetary (money and credit), and human (labour and management), and thus failed to recognise the founder's role and social resources and the higher features of organisational and physical resources, hence their classification.

Barney (1991) explained that the physical capital are the physical technology used in a firm, a firm's plant and equipment, its geographical location and its access to raw material. The human capital refers to the training, experience, judgement, intelligence, relationships and insight of an individual managers and workers in a firm; while the organisational capital are the firm formal reporting structure, its formal and informal planning, controlling and coordinating systems including informal relationships among groups within a firm and between a firm and those in its environment.

Meanwhile, by clearly considering the classification by Brush et al. (1997), the social resources as explained there in their work includes networks and relationships. This seems to contradict what Barney (1991) explained about resource classification. Organisational capital according to Barney also includes network of relationships. By evaluating Brush et al. position it can be deduced that social capital is likely to also fall within the organisation or human capital.

The table below shows Brush et al. (1997) resource configuration for a new venture.

Table 2. Capital Framework for New Ventures (Adapted from Brush, Greene, Hart & Edelman 1997)

Capital Type	Definition	Associated Authors
Human Capital	achieved attributes	Becker (1964)
	education and experience	Cooper (1981)
	Reputation	Dollinger (1995)
Social Capital	relationships and networks	Bordieu (1983)
	Family	Liebenstein (1968)
	race and ethnicity	Glade (1967)
	political connections	Glade (1967)
Physical Capital	tangible assets necessary for business operations	Hofer & Schendel (1978)
	facilities and equipment	Hofer & Schendel (1978)
	Technology	Dollinger (1995)
Organizational Capital	organizational relationships, structures	Tomer (1987)
	routines, culture	Hofer & Schendel (1978)
	Knowledge	Dollinger (1995)
Financial Capital	funds used to start & grow business	Bygrave (1992)

Those resource classification and their attributes help firm to carry out valuable strategy.

Despite the numerous resource classifications, not all assets or resources are of strategic relevance (Barney 1991:102). He opined that some firm resource attributes may hinder it from conceiving and implementing valuable strategies, or some may lead to conceiving and implementing strategies that may reduce firm's effectiveness and efficiency, and as well as may have no significant impact as to firm's strategizing processes.

Many resource based theories consider firm resources as numerous and are in no way exhaustive. Wernerfelt (1984:171) stated that the traditional economic theory categorise resources to labour, capital and perhaps land, which in mathematical term use by the

economist typically requires that resources exhibit declining return to scale. Wernerfelt however posited that there is the need to view firm resources beyond traditional scope of production market. By this, resource types should be viewed based on demand and profitability. These views are thus in terms of market positioning such as market entrant barrier (Wernerfelt 1984); valuable, rare, social complex, non-substitutability, imitable to generate about normal rate of return (Barney 1991; Wernerfelt 1984; Menguc & Auh 2006; Amit & Schoemaker 1993). Those are the views based on intangible resources of the firm. Today, the view of resource type is different from the traditional believes. For example physical capital was traditionally believed to be the foremost form of capital and one of the most important sources of wealth creation (Lev 2001:3). The modern view of type of resources is to optimize the physical resources.

Though not all the types of resources will be tested, but this study will only select some type of resources based on their tangibility or intangibility – notable amongst those to be tested are firm size, international experience and firm's unique resources, see details in sub-chapter 3.4.

Having discussed types of resources, it is pertinent to note that firm need resources, whether tangible or intangible, in order to drive its strategy. Through resource developmental path, many intangible resources had their roots, which are mostly from the tangible resources (Brush et al. 2001). Meanwhile, Brush et al. (1997) noted that firm can develop resources in different ways. They added that new venture can acquire complex resources such as systems and relationships in order to develop own organisational systems, routines and products very fast.

For firm to posses intangible resources, there must be instrumental resources especially finance, which is tangible resources. Thus, intangible resources must have support from tangible resources so as to strive. It can be concluded that tangible resources are important to the firm, but intangible resources such as firm-specific capabilities would help the firm to derive competitive advantage over its rivals in the business environment.

Since resources of the firm are heterogeneous across, firm competitiveness is built around effective utilisation of utilisation of these set of resources. The resources and capabilities of the firm are central to strategy formulation that gives rise to competitiveness of the firm. Through this, firm would attain its competitive advantage and achieve its profitability level. The following sub chapter discusses the influence of firm resources in entry mode strategy.

3.4. The influence of firm resources in entry mode strategy

Having discussed types of firm resources and their importance for firm's competitiveness, the role of firm resources in entry mode strategy for hypothesis development is as follow. The selected resources are firm size, international experience and firm's unique resources. The reason is to determine the impact they have on entry mode selection. Besides, to avoid generalizing these impacts and effect base on tangible or intangible resources since the degree of impact individual tangible resource or intangible resource defers. See chapter 1.2 for a detailed reason why these resources were chosen for this study.

3.4.1. Firm size

Although Lev (2000) has argued that there has not been clear evidence about the conceptual frameworks in literature as to which stream of firm resources is more important than the other, this study will investigate firm resources that could give firm the potentials to choose high resource commitment entry strategy.

Firm size is a primary indicator of tangible resources. It is an indicator of firm's competitive advantage in financial, human, technological, reputation or organizational resources Ekeledo (2000). A firm may decide to deploy a particular entry strategy it would prefer, but due to it size, it can be restrained. Argued by Erramilli & Rao (1993) Madhok (1997), Ekeledo (2000), in international expansion, the size of the firm is a reflection of its ability to absorb high cost or risk through wholly owned subsidiary. Grant (1991) affirmed

that the size of the firm can constrain what it can do, for example, the quest for share control or full control entry mode. Share control or full control entry mode is dependent on the ability of firm to integrate unites; and it is a reflection in the size of the firm. Besides, the ability to integrate determines firm's entry mode choice (Erramilli & Rao 1993). Root (1994) explained that the larger the size of the firm, the likelihood it favors 100 percent ownership of its subsidiaries, while smaller firm will favor engaging with local partners.

Taylor, Zou and Osland (2000) argue that firms with large size have a higher bargaining power in negotiating entry mode than small firms and as such will be able to leverage their reputation into increasing bargaining power. Their finding shows a positive relationship between firm size and equity entry mode choice. Similarly, Ekeledo (2000:128) tested the main effect of firm size on entry mode. The result shows that the level of resource commitment in entry mode tends to increase as the size of the firm increases. Thus an equity entry mode will be preferred by large firm, which involve high resource commitment and gain competitive advantage. Quer et al. (2007) claimed that one of the most influential ownership advantages is firm size. Meanwhile in entry mode selection, larger firm would prefer establishing own subsidiary, because it involves a substantial investment and high risk (Koch 2001). Koch noted that smaller firm would preferably select low resource commitment entry mode because they lack sufficient management potential and skills to enter foreign market by establishing wholly owned subsidiary or engaging in international joint ventures. Similarly Tallman and Fladmoe-Lindquist (2002) explain that a greater dimension of market entry implies greater availability of financial and managerial resources, which makes it easier to set up full-ownership subsidiaries. Thus the influence of firm size in entry mode selection is that it gives firm the freedom to select entry mode choice, which also depends on the industry-specific resource demands for individual market entry mode (Koch 2001).

Since the resource based view of the firm posited that the firm is the source of competitive advantage, which depends on the firms' available resources, firm size which is one key

resource among tangible resources has important role to play in entry mode decisions thus it is suggested that

H1: The larger the firm size, the higher the propensity to choose high resource committed entry mode (equity mode).

3.4.2. International Experience

International experience is among the intangible resources that give firm competitive edge when expanding operations to international market. Ekeledo (2000), Agarwal and Ramaswami (1992) confirm that firms with little experience tend to exaggerate potential business risks and also underestimate the potential returns. For that reason, exaggerated risk perception, firm will prefer alliance and tend to avoid WOS (Johanson & Vahlne 1977), when expanding abroad.

International experience is one of the factor determinants of international entry mode strategy. Erramilli (1991:481) argued that "preference for similar market, however, appears to be conditioned by firm's international experience". However, according to Erramilli (1991), experience has two distinct and opposite influences on MNCs evolution. First, new firm may desire to employ high resource commitment entry mode because of its desire for high degree of control, for example WOS, to support ethnocentric beliefs and overcome transaction uncertainty. Second, firms with much more operation experience in international market would act to reduce uncertainty due to their international experience. Consequently, Erramilli argued that at the early state of firm international evolution, they tend to accept share control mode as oppose to full control mode such as WOS. But as firm continue to gain more experience in the international market, the need for greater integration entry mode such as full ownership mode, since they will therefore have confidence to assess risk and return. The ability to manage international expansion by integration in terms of technological, managerial and financial capability at the time of entry can also be based on business experience. Thus Erramilli (1991:485) found U-shape relationship between international experience and entry mode strategy in respect with the

level of control. Ekeledo and Sivakumar (1998) found soft-service organization to fall in the category U-shape phenomenon as argued by Erramilli (1991). On the contrary, firm that are not experienced in the hard service or manufacturing category would prefer linear pattern (low resource commitment mode) and wholly owned subsidiary would be preferred by much more experienced firm, Ekeledo and Sivakumar (1998) added. Similarly, Gatignon and Anderson (1988) found that manufacturing MNCs will increase the use of WOS when they have cumulative international experience.

Ekeledo (2000) explains that there are two types of experiences that are important to wholly owned subsidiary. And they are industry experience and geographic experience. He suggests that a firm whose resources include both industry and geographic experience is likely to favor full ownership mode.

Since this study is emphasizing on the resources based concept, one of the factors influencing this theory which are the drivers of the firm's competitive advantage that could boost high resource committed mode, is international experience, thus it is suggested that

H2: The greater international experience a firm has the greater the use of high resource committed entry mode.

3.4.3. Firm's unique resources

For the purpose of this study, firm unique resources shall be grouped by selecting those firm resources that have been classified as specific to the firm. For instance, firm specific assets and capabilities. Ekeledo (2000) notes that firm specific capabilities are by no means exhaustive, thus this study would select some of the resource that can be classified to be intangible and would help firm to drive its strategy.

This research would consider "know-how" of the firm as unique resources. According to Ekeledo (2000) "know-how" is specific to firm and it is known as organizational specific

capabilities and resources. The “know-how” of the firm to be analyzed is the firm’s proprietary know-how and firm’s tacit know-how, which are intangible firm resources that may give firm competitive edge over rivals. Tallman and Fladmoe-Lindquist (2002:117), citing Hamel and Prahalad (1990), explain “that competitive advantage is the consequence of holding and combining unique resources and capabilities and creating a strategic architecture that can apply the resulting core capabilities across product and business lines. The uniqueness of firm resources can be likened to most resources that are intangible in nature, and they are difficult to duplicate or trade on by competitors; except tangible assets that are firm-specific, otherwise known as special physical assets, which have a narrow range of uses (Anderson & Gatignon 1986).

Moreover, unique resources of the firm can be regarded as firm specific assets and capabilities because they are not easily duplicated by rival firms (Madhok 1997), especially firm specific capabilities. For example tacit know-how, which is embedded in organizational capabilities (Grant 1991; Ekeledo 2000), is difficult to imitate and it is particular to the owner of such resource – the firm. In other words, it is not easy to articulate by foreign partner when the decision to engage on share ownership mode strategy is decided upon. Anderson and Gatignon (1986) argued that in order to know the worth of know-how, a prospective buyer would want it be disclosed. Meanwhile because a firm does want to protect such know-how because of the competitive advantage accrue, it will prefer full control ownership.

Furthermore, resource can be built in unique way for instance special human asset in form of special working relationship and know-how, but for the fact that prospective partner would want such know-how be disclosed, the resource based view points out that by installing specialized assets in a share control ownership, the cost of removing it is high especially in the advent of opportunistic behavior. Ekeledo (2000) therefore suggest hierarchical institutional arrangement (WOS) will be preferred over share ownership mode, in order to control such resources.

Apart from tacit know-how, another know-how resource of the firm that is unique to the firm, which is firm specific capability, is proprietary know-how. This resource of the firm is often embedded in firm's product, process or management technology (Ekeledo 2000). Proprietary technology also known as proprietary know-how, which is mostly use in production processes, is the most important technology in manufacturing and service business and it is highly specific to firm (Ekeledo 2000:53). Because of the importance and unique nature of these resources, for instance, patent, trade mark, - blueprints (Wernerfelt 1989), MNC would want to avoid share ownership mode or licensing. The reason is that share ownership strategy will lead firm to exposing it proprietary know-how to disseminating risk (Brouthers 1995; Miller 1992). Therefore, full control ownership mode will be preferred. Brush et al. (2001) argue that "know-how" form the basis of more complex resource - intangible resources. "These firm-specific complex resources are built and leveraged for long-term success in worldwide markets through strategies of international expansion and global integration", (Tallman & Fladmoe-Lindquist 2002:118). Through integration, the choice of entry mode is WOS, which enhances hierarchical control of firm's activities and resources.

However, the choice between low resource committed mode and high resource committed mode depends on the level of these resources uniqueness or specificity. If it is high, firm will insist on integrated mode because of the reward that will continually accrue to hierarchical mode (Erramilli & Rao 1993; Willianson 1991), thus it is suggested that

H3: The higher the firm's unique resources, the higher the propensity to choose high resource committed entry mode (equity mode).

4. THE MODERATING EFFECT OF HOST COUNTRY RISK 0N FIRM RESOURCES AND ENTRY MODE

This chapter discusses host country risk in respect with political and economic risk. In the chapter, the hypotheses regarding the moderating effect of political and economic risks will be developed accordingly.

4.1. Country Risk

Country risk is defined as the volatility in the external environment of host country (Erramilli & Rao 1993); any type of external influence that affect the firm's operations in the country (Quer, Claver & Reinda 2007); general environmental uncertainty (Miller 1992). Miller (1992:312) refers risk as uncertain environmental variables that reduce performance predictability.

Country risks, which is the most salient influence in entry mode decision (Rothaermel, Kotha & Staensma 2006; Cosset & Roy 1991), depends on how firm perceives it to influence its entry strategy in order to employ appropriate entry mode. According to Brouthers (1995), management may sometimes feel that if they are able to manage operations in the foreign country directly, they can also manage and reduce risk, which means they will want to minimize the risk associated with international expansion by internalising operations so as to exact control on the expansion and operation. Internalizing operation means that a firm would want to benefit the advantage of controlling its own subsidiary by embarking on hierarchical control of its activities such as wholly owned subsidiary. Brouthers (1995) maintained that managers also believe they can use their experience to influence the risks they are expose to, but many scholars have debunk that concept of believe, and argue that such believe is a self deceptiveness, wishful thinking or some of such combinations (Oviatt, Shrader & McDougall 2000). However, Oviatt,

Shrader and McDougall (2000) added that some aspects of risks can be managed based on experience and information gathering about the market.

Country risks are of interrelated issues. They may be from uncertainty about demand, the competitors, the cost and other market conditions; that which jeopardizes the country's financial solvency, and political risk (Quer, Claver & Reinda 2007). Root (1987), Brouthers (1995), Anderson and Gatignon (1986) noted that risk in the international business environment is one of the key determinants of entry mode strategy. Thus country risks have played major role in management decision in international expansion. Brouthers (1995) affirmed that there are various risks facing firms in a new business environment. Besides, the perception about country risks also has a vital role to play in decision making (Brouthers 1995; Quer, Claver & Reinda 2007), thus its influence on level of resource commitment.

Loustarinen and Welch (1990) insisted that high resource commitment mode, which is financial commitment, demands more stable political and economic environment. Brouthers (1995) also opined that in market where management perceive high risk complexity, low resource commitment strategy will be used. Meanwhile the desire for firm to commit more resources in host country means the firm's exposure to external environmental risk (Anderson & Gatignon 1986; Erramilli & Rao 1993). Thus firms view risk as a multiple, interdependent concept (Miller 1992; Oviatt, Shrader & McDougall 2000), that is why managers would want to exploit trade-off amongst risks in the country entered, entry mode adopted and the firm total revenue exposure to that country. Exploiting trade off, will require firm to select low resource commitment mode when high risk is perceived at the time of entry (Oviatt, Shrader & McDougall 2000), but the extent to which certain firm resource will help avert low resource commitment even when high risk is perceived will be tested based on relevant hypothesis postulations in this study.

The perception of uncertainty in host country about current economic and political conditions, and government policies influence market entry decision (Whitelock & Jobber

2004; Brouthers 1995; Miller 1992). More so, the perception about country risk factors could cause firm to make wrong decisions. Hence, country risk factors are important issues that are to be considered carefully by management in order to emerge at a good and profitable decision.

The quest for increased resource commitment entry mode strategy is subject to a number of factors, which should moderate it, including country risks. Sequel to above propositions, the influence of political risk and economic risk on resource commitment will be examined based on literature, and hypothesis developed.

4.1.1. Political risk

The indication of the likelihood that country political forces would cause drastic changes in a country business environment that may prove detrimental to foreign business interest, which is often a reflection of underlying societal tension and unrest, is termed political risk (Rothaermel, Kotha & Steensma 2006). Miller (1992:313) refers political risk as uncertainty that may result from threats and opportunities that is associated with potential or actual changes in political system. Country political risk, as defined by Agawal and Feils (2007), encompasses different facets. It encompass both actual and opportunity loss. Actual loss could result from confiscation of the firm by host government, revolution or war. Opportunity loss on the other hand includes actions by legitimate government, which may cause reduction in streams of benefits such as currency and remittance restriction; external agents that are outside control of the legitimate government for example threat by hostile groups, nationalistic buyers, suppliers, employees etc. Thus political risk applies to various facets of international business, like exporting and FDI (Agarwal & Feils 2007). According to Wade (2005: 1), political risk can arise in any number of different ways, governmental change; a shift in national ideology or policy, civil war, social unrest, economic instability, nationalization by host regime, and corruption. However, Miller (1992) emphasized why political instability/uncertainty, for example changes in government, might not lead to change in the policies that affect business. Besides, government might not change but there

could be uncertainty resulting from unanticipated fiscal and monetary reform, price control, and changes in trade barrier, and threat of nationalization change in government regulation, and barrier to earning repatriation, Miller added.

In this study, political risk refers to the uncertainty which arise from policy changes, corruption, civil and social unrest, which affects business practices in the country of operations.

As firm expands internationally, political risk that determine entry mode strategy can not be escaped. Firm must in one way or the other encounter various aspects of political issues such as change in government policies, whether favorable or unfavorable; which may result from change in government or inconsistency in political arena in the present government. For those reasons, political risks tend to pose risk to firm in the areas of critical decisions making process of how to deploy entry mode strategy.

Brouthers (1995) argued that a firm that is physically present in a country faces the challenges of exposing its assets to possible nationalization due to changes in law, regulations and government philosophies. A firm who has proprietary technology that would want to avoid disseminating risk, which is risk of allowing proprietary technology be transferred to partner, may not want to employ entry mode strategy like franchising, licensing or other share control mode, but would prefer integrated mode of entry, which involves high resource commitment, like WOS so as to protect the technology and avoid the risk of letting it out. With the decision to employ WOS, the firm will at the same time expose strategic asset political risk of host government regulatory strategy (Brouthers 1995; Miller 1992; Agarwal & Feils 2007). For these critical reasons, political risks try to moderate effective decision about entry mode strategy to deploy.

Political risk is a strategic risk to the firm since the long-run effect can lead to a lose of future profitability and it will cause firm a financial problem for example in the advent of changes in government policy that may lead to naturalization, it will cost the company that

is affected to write off valuable assets, expenditure for starting new operation and loss of profitable operation (Brouthers 1995). However, not all political risks that can be said to be strategic since strategic risk must have long term effect. Political risk caused by civil unrest that may lead to a damage of firm's physical property, can be averted by a firm by taking an insurance policy that may indemnify the firm on the occurrence of that event, thus helping to reduce such problem. Risk of that nature would not be termed strategic risk since it will take a short term to resolve.

Nevertheless, political risk can affect every aspect of international business, whether share ownership mode or full ownership mode strategy. Agarwal and Feils (2007) suggest that in making entry mode decisions, different facets of political risks should be considered. By thinking that exporting may be less risky when evaluating political uncertainty is not enough, other wise it may lead to poor decision. In other words, Agarwal and Feils (2007) argue that why exporting may not lose facilities, but may significantly face political risk of non-payment of shipped goods, or loss of expected future sales. In addition, the emergence of WTO would have reduced barrier to encourage exporting since such political organization encourage less trade restrictions such as reduction of tariff barrier to member countries. However, many of these policies are also being developed to encourage FDI and thus posing risks to low resource commitment entry mode, which can lead to loss of profitability.

Political risk in form of policies for taxation can also extend more risk to low resource entry mode strategy like exporting as government in host country may introduce incentive policies to encourage local production. Low resource committed entry mode strategy, licensing, franchising etc, may tend to be less affected by political uncertainty because it is easy to withdraw resources when risk is intensified since these strategies are flexible in nature (Barney 1991). This is one of the reasons why internalization of activities (Dunning 1993), would be preferred. Similarly, it is also argued in literature that share ownership mode in the advent to high political risk, exporting or FDI (JV or WOS) is preferred over contractual mode (Agarwal & Feils 2007), but for internalization reason in order to reduce

investment risk, wholly owned subsidiary would be preferred over joint venture. It follows that in high risk – high return market (Agarwal & Feils 2007; Henisz & Zelner 2004; Taylor 2000; Root 1988), argue that irrespective of the height of political risk, high resource commitment mode will be adopted by firm and therefore negotiate political governance structure in line with hierarchical organization by way of forming regulatory agency or public-private partnership to safeguard firm's interest.

Root (1988) described political environment as one of the multiplicity actors in the contextual environment of host country. The contextual environment according to Miller (1992) is uncontrollable. Root opines that one of the ways by which MNC use to control risk in host country is risk control strategies in which firm tries to influence the host government by negotiating political risk Thus political risk can not only be view from risk perspective, but should also be viewed as opportunity for high resource commitment mode. Base on the above discussion, hypotheses will be developed to show the moderating effect of political risk on the firm resource and entry mode on which hypotheses have been developed in chapter 3, thus the hypotheses are as follows.

Political risk x firm size: Cook and Fox (2000) note that the size of the firm determines how it can influence political activities in the host country. They further argued that larger companies often have resources to lobby when circumstance detects. According to Barney (1991), valuable resource is a source of competitive advantage when it is able to exploit opportunity or neutralize threat. Thus firm size as noted can neutralize threat as well as be a source of competitive advantage to the firm, thus firm with small size would be affected largely because they might be able to absorb political risk (Koch 2001).

Meanwhile, it has been conceptualized in literature that the ability of firm to marshal its resources determines its entry mode, besides integration of firm's activities entails higher resources commitment and carries greater risk than share control Ekeledo (2000). More over, Agarwal and Ramaswami (1992) maintained that host country with high probability of policy risks, like restrictive policies, hinders high resource commitment mode (equity

mode), and thus encourages non-equity mode. The result of their findings revealed that larger firms have more propensities to choose sole venture or joint venture.
Sequel to above discussion, political risks has moderating effect on firm size during entry mode decision. Thus, it is suggested that

H4.1: High political risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode)

Political risk x international experience: It has been argued earlier on in this work that firms with long international experience will favor the use of equity entry mode than firm with less international experience. However, having discussed the way political environment tend to affect the use of a particular entry mode, below is the hypothesis to test the extent to which political risk would moderate international experience of the firm with respect to entry mode strategy.

H4.2: High political risk does not reduce the propensity of firm with high level of international experience to use high resources committed entry mode (equity mode)

Political risk x firm's unique resources: Political risk tends to reduce high resource commitment entry mode when firm is capitalizing on its unique resources as a determinant of its entry mode strategy. For example, Brouthers (1995), Miller (1992), Agarwal and Feils (2007) explain that with a firm deciding to enter foreign market with high resource committed entry mode, it risks exposing strategic assets to political risk, for example risk of confiscation of assets, thus reducing the adoption of high resource committed entry mode strategy.

H4.3: High political risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode)

4.1.2. Economic risk

A country's economic risk points to economic forces that may result in drastic changes in the business environment that is detrimental to business interests (Rothoemel, Kotha & Steensma 2006:59). The risks associated with economic uncertainty in form of high interest rate, inflation, and demand fluctuation (Sashi & Karuppur 2002); exchange rate (Taylor 2000); movement in aggregate production (Miller 1992), is termed economic risk. Further, economic mismanagement and corruption increases the rate of economic risk that is often in form of high inflation, capital flight, and debt defaulting (Rothoemel, Kotha & Steensma 2006).

Economic risk associates with political risk (Agarwal & Feils 2007) because there is policy involvement which tends to affect economic values. There are many postulations about economic uncertainty which affects international business operations. Economic risk encompasses various facets of economic activities in host country. Miller (1993) sees economic uncertainty as experienced by managers differs across countries, which is the extent to which product and financial markets are segmented. Miller who categorically refers "risk" to depict uncertainty environmental variables that reduces performance predictability of firm goes further to refer the fluctuation of economic activities and prices in a country as macro-economic uncertainty; which for example deviations from purchasing power parity exchange rate, can cause input sourcing and product pricing arbitrage opportunities for MNCs.

Other economic risk factor that have role to play in determining entry mode strategy of the firm is currency uncertainty. Fluctuation in country currency can have a negative impact on firm's investment, for instance fluctuation in exchange rate between the entrant firm (home country) currency and the target (host country) currency could cause a lost of income, affect the investment value and repatriation of earning (Sashi & Karuppur 2002). To avoid such currency uncertainty, Sashi and Karuppur (2002) argue that firm will not use corporate equity mode especially location dependent mode that involves physical resources, but will

rather prefer to use contractual arrangement mode such as franchising, because less firm resources will be committed in such entry mode strategy (Ladmoe-Lindquist & Jacque 1995).

Another variable of economic risk is economic infrastructure, which affects managerial decision on the amount of resources to be committed when entering international market. Brouthers (1995) explains those economic infrastructures are those structures available in the market to sell, advertise, and distribute a firm goods or services; and added that those infrastructures cause economic uncertainty when they are not available. The availability of economic infrastructure is consequent upon the developmental path of a county. Dunning (1981) refers country's developmental path as the level of economic development with the rest of the world. For example CEE countries are still in the initial developmental path compared to the West and U.S.

However, because of the risk characteristics as perceived by firms about economic infrastructure, government of those countries try to use incentives to attract FDI, which require high level of resource commitment compared to exporting or franchising.
Nevertheless, economic infrastructure also encompasses physical infrastructure such as road, communication network, energy etc. Brouthers (1995) explain that poor physical infrastructure will not support firm's preferred entry mode strategy and as such will compel firm to adapt operation by selecting contractual entry mode strategy or may avoid such market entirely (Ekeledo & Sivankumar 1998). Therefore, economic infrastructures have a moderating role to play in management decision to choose between low resource entry mode strategy such as non-equity mode or high resource commitment mode such as equity mode. However, the resource based theory has always encourage the use of full ownership made strategy (Dunning 1993), as a mode of entering international market, since it always helps to gain more competitive advantage due to the nature of firm resources unless the firm resources cannot support such strategy (Ekeledo 2000). From the above discussions, it seems economic risk have the moderating effect against the use of high resource

commitment mode, hence the following hypotheses on the moderating effects of economic risk on various firm resources.

H5.1: High economic risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode)

H5.2: High economic risk reduces the propensity of firm with high level of international experience to use high resource committed entry mode (equity mode)

H5.3: High economic risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode)

The figure below represents the summary of the conceptual framework for which hypotheses in chapter 3 and 4 were developed.

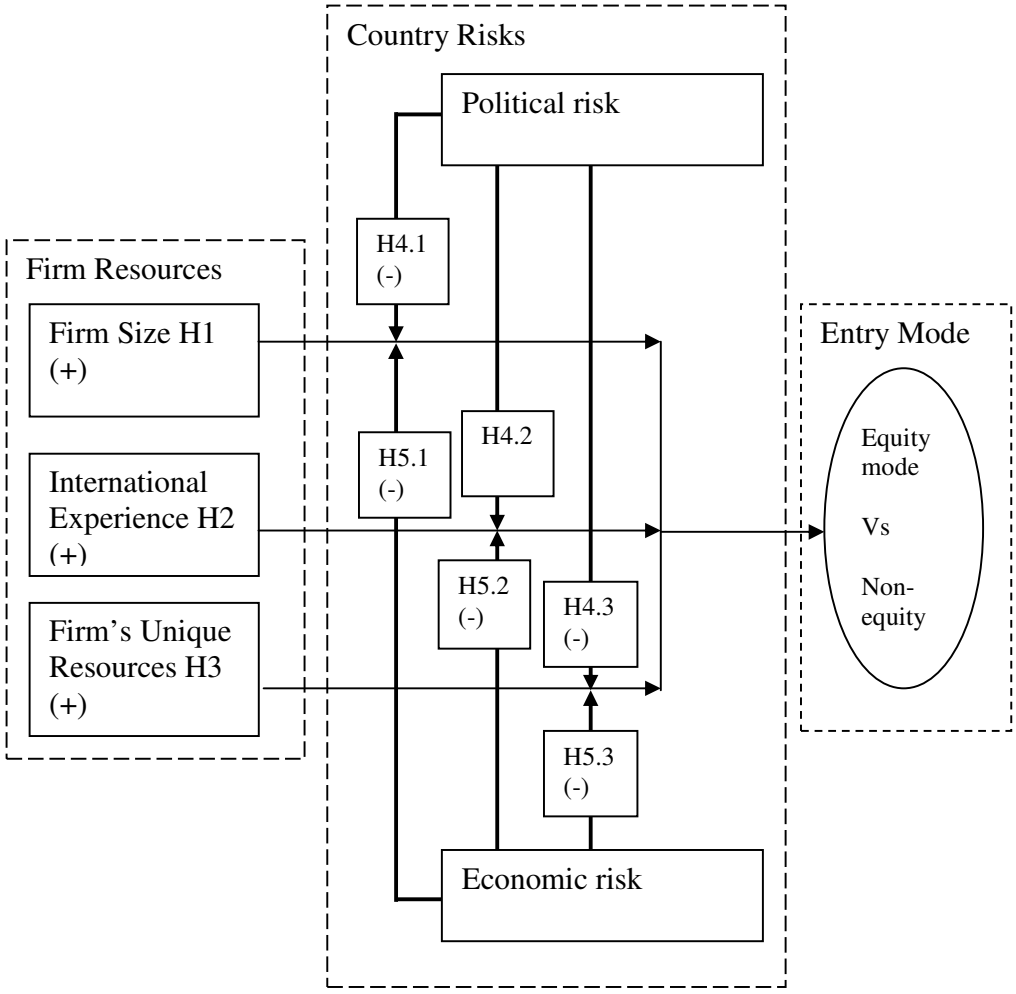

Figure 2. *Conceptual Framework for the Study*

Note: (+) increase relationship with equity mode

(-) decrease relationship with equity mode

Where there is no sign, it means there is no influence

The above theoretical framework has highlighted the major issues regarding the research question. The RBV has been applied together with other complementary theory through which hypotheses were developed in chapter 3 and 4. The next chapter discusses the research methodology for the study.

5. RESEARCH METHODOLOGY

This chapter discusses the methodology used for this study based on the research conducted among Finnish registered companies with international operations, which cut across both manufacturing and service companies. The empirical study was conducted to investigate the impact of firm resources on firm's international entry mode strategy and how country risks affect these resources based on interactions. This chapter is further meant to explain the steps and approaches through which data for this study were collected. Thus this chapter will discuss the following items: research design, sampled population for survey, variables and measures, test statistics, decision rule for test, and validity and reliability of the present study.

5.1. Research design

Every business research has its on distinction, which is the choice between quantitative and qualitative research methods resulting from the relationship between the exiting theory and research.

The premise of this study is "The impact of firm resources on international entry mode strategy: the moderating effect of country specific risk factors". The empirical investigation for this study will be carried out through a quantitative research method. The reason is that, though there is alternative to use qualitative method, since this research is deductive, which resulted in the formulation of hypothesis in relation to previous similar research; and because many entry mode researches on which this present study bases the hypotheses have been carried out through quantitative method, hence quantitative research method will best suit this purpose in order to compare results with previous finding.

Malhotra and Birks (2003: 132-133) describe quantitative research as method which is used to answer specific hypotheses or research questions using techniques that seek to quantify

data by applying some form of statistical analysis. In association with quantitative research is survey. Survey is a method which allows the collection of a large amount of the data from a sizeable population in a highly economical way (Saunders, Lewis & Thornhill 2003: 92). Hence the method of data collection for this study is survey.

According to Ekeledo (2000: 76), entry mode choice decisions process in the past was studied to gain insight into the complexity of entry mode selection, and survey method was chosen because it was the most effective way to gain such insight. Besides, a survey method is useful for capturing facts, opinion, behaviors or attitudes (Maylor & Blackmon 2005: 182). Survey is usually carried out by administering questionnaires to proposed respondents. Saunders et al. (2003) point that questionnaire can be self-administered, for example, by on-line questionnaires, postal questionnaires, delivery and collection questionnaires; and interviewer administered, for example, telephone questionnaires and structured questionnaires. Meanwhile for the purpose of this study, on-line questionnaires will be administered for more economic reason. Survey is important because is allows for standardized questionnaires to be administered, which would guarantee direct questioning of managers of firms to express their perceptions, and facilitates easy comparison of variables.

5.2. Sampled population

The sampled population for this study consists of Finnish registered companies who have international operations. The unit of analysis was drawn from both public and private firms. The public and private companies as the prime unit of analysis is based on their individual entry mode decision strategy. This is in conformity with previous studies on firm's entry mode decisions (see Ekeledo 2000; Agarwal & Ramaswami 1992; and Erramilli & Rao 1993).

But to be able to get information on these companies, Helsinki School Economics (HSE) library was used to gain access to Fonecta database so as to obtain information on registered companies in Finland. The reason is that it was easier to get information such as email addresses of respondents and the company websites of Finnish registered companies from Fonecta data base, which is of great importance for the survey carried out. The criteria used for the selection of the target sample for the study was provided by Fonecta using its profinderB2B search. Since one of the goals of this study is based on firm size, and according to European Union's definition of firm size, small firm size was based on employee category of 10 – 49; no employee category of below 10 was selected. Secondly, not all the firms on the criteria of employee category were having international operations, then another criteria was added by selecting "export", and "both import and export". However, there was a problem using these criteria alone as some companies, though not classified in export or import categories, have international operations. The option was to visit some companies' website to know if they have any international operation. Those that were found to meet the criteria for the sample selection for the study were added to the number of firms for the study. At the end, a total of 96 firms were selected. It is imperative to note that within these firm that were selected, the key decision makers' emails were provided. However, to know the actual people who are responsible for answering to the survey questions was confusing. Hence all decision makers were sent email with the link to the survey questionnaire. In the end a total 2.748 emails were sent, but there were some responses from some respondents that they were not he right people to answer such questions.

These respondents were key decision makers of the targeted companies, which cut across companies' chairman/CEO, presidents, vice presidents, and unit managers. In the first week of when first set of emails were sent, 28 responses were received. Out of these 28 responses, 7 were unusable while 21 were usable responses. One week after, a reminder and thank you emails were sent so as to thank those who have participated and to remind those who have not participated to please kindly participate in order to increase the number

of responses. These later yielded 5 additional responses of which 4 responses were usable with only 1 was unusable.

After another one week, a follow up telephone were made to potential respondents especially those who were not in their respective offices when the two sets of emails were sent. In that process no additional response was got. That was the final data collation process from respondent before the computation of results. The usable responses were 25, which were different cases of entries that were reported in the survey.

Meanwhile, during the process of data collection, a lot of problems were encountered. Many e-mails were returned undelivered because of wrong addresses. Another problem was that some of the target individuals have already left the company by the time the emails were sent, and some gave indications that the email may be directed to another person. Besides, some respondents wrote that unfortunately that they cannot participate at the time when the emails were sent, while other complained that they do not have extra time to participate. Table 3 below presents how target sample responded.

Table 3. Research response rate

Sample size	2.748 (based number of emails)	Number of companies = 96
Questionnaires returned	33	
Usable questionnaires	25	
Usable rate	75%	26% (based on number of entry cases of companies, which is 25 : 96)
Response rate	1.2%	34.4% (total responses, which is 33 : 96)

It is imperative to note that although only 96 companies were selected as the sampled population for the research, the selection criteria yielded more than 96 companies. After collecting over 2000 e-mail addresses of the companies, I suggested that the sampled companies would be significant for conducting the research, thus I ended the selection process.

I will like to acknowledge that when the first criterion, employee category of 10 and above, was used; a total number of 17.501 companies were displayed. This number was later reduced when a second criteria, which was export (and both import and export), to 2.654 companies. These selection criteria also include indications that the selected companies would have their emails and website links in the data base. Meanwhile, out of the 96 companies used as a sample population for this study, 2 of them have no export or import information, but I have to visit their website to find out if they have international operations before they were included in the survey. Nevertheless, it is imperative to note that a random selection process was adopted to select 96 companies out of the 2.654 companies that were displayed after using the later criteria for the selection. The reason is that, after I have obtained over 2.000 emails, I felt it would be suitable enough for the survey, and at the end a total number of 96 companies' decision maker's emails were obtained.

5.3. Variables and Measures

In this study, firm resources will be the independent variables and country risk factors are introduces as moderating variables, which are political and economic risks; while entering modes, that is equity mode and non-equity mode, will be the dependent variables. Cramer and Bryman (1997:7) stated that the term independent variable denotes a variable that has an impact upon the dependent variable, while the dependent variable is deemed to be an effect of the independent variable. Having stated it before, the dependent variables are the entry mode choices which are measures by various level of resource commitment, control and risk involvement. The questions in appendix 1 were used to obtain information needed to measure the variables used for this study. These variables and their respective measures are discussed below.

Independent Variables

Firm size: Firm size has been used in many studies, and different measures have been preferably used. In some studies, the number of employee are used, others used total income, number of subsidiaries, for instance in the study of (Erramilli & Rao 1993; Agarwal & Ramaswami 1992). To obtain information about firm size for this present study, respondents were asked two questions to determine their perception about the size of their firm at the time of entry the country of operation they were asked to focused on while answering the questions. Questions 6 and 7 of section B were used to obtain such information. They were questions about the number of employees and sale turnover at the time of entry.

International experience: Different measures have been used to determine firm's international experience in literature. Target country experience has also been used, which denotes experience based on the uncertainty component of the target country (Konkanen 2006). In addition, geographical scope or spread has also been used to determine the number of foreign countries and continents in which firm has operations. To measure this variable in this study, question 9 of section C was used to obtain information. The level of international experience was ranked using the likert 5-point scale of 1 to 5. 1 = no prior international experience while 5 operations in every continent. This measure follows Erramilli (1991) measure for geographical scope of firm's experience; Kontkanen (2006) also used similar measure of international experience based on geographical spread from Finnish perspective.

Firm's unique resources: Proprietary and tacit know-how are regarded as unique firm resources in this study. Previous studies measured proprietary know-how and tacit know-how in terms of unique patent, difficulty for rival to copy production process, difficulty in transferring know-how, codifiability of production process etc. In this present study, unique firm resources are measured similar to how they were measured in previous studies (see

Ekeledo 2000). Question 10 (a - g) were used to obtain relevant in formation about firm's unique resource. Respondent were asked to choose from 5-point likert scale
Where 1 = strongly disagree, while 5 = strongly agree.

Moderating Variables

Country risks factors have been measured in various researches using different parameters. Delios and Beamish (1999: 923) used Euromoney risk index (1993) to measure country political and economic risks. Besides, Perceived Environmental Uncertainty (PEU) has also been used to measure country risk (Brouthers, Brouthers & Werner 2000). Euromoney country index measures country risk in relation to country's political and economic risk, as used by Delios and Beamish (1999), to assess the relationship of host country's institutional environment and ownership strategies of investors. While Perceived Environmental Uncertainty (PEU) is used to evaluate the dimension of international environment when investments are being made in different countries so that the investing firm could predict the optimum return on investment (ROI) when a particular entry mode strategy is used for the risk assumed (Brouthers 2002: 183). Country risk situations that are measured includes major changes in a country's economic policies, political regime, terms of trade, attitude toward foreign direct investment, social stability and currency fluctuation. Question 8 (1 a-e) and (2 a-g) were used to measure political and economic risks in this present study to ascertain the views of managers about the risks in their host countries at the time of entry. The indicators used to measure these variables in this study are discussed below.

Political risk: 5-point likert scale was used to measure the level of risk for each political risk indicators these indicators are barrier to earning repatriation, nationalization risk, change of government policy or ideology, corruption, and civil war and social unrest.

Economic risk: 5-point likert scale was used to measure the level of risk for each economic risk indicators, which includes commercial infrastructure risk, physical infrastructure risk, high Inflation, debt defaulting, demand fluctuation, high interest rate, and currency fluctuation. See appendix 1 for details

Dependent Variable

The dependent variable, which is the entry mode/operation mode, was measured with the question asked in question 4 of section B. Although many entry mode studies, for example Ekeledo (2000), Brouthers and Nakos (2004), Rasheed (2005), Erramilli, Agarwal and Dev (2002), Erramilli and Rao (1993), Erramilli and D'Souza (1995), introduced a dichotomous measures to test their hypotheses, where 0 or 1 was the code for entry mode, this research is more interested in knowing the level of resources commitment made by the choice of a specific entry. This is also similar to the work of Ekeledo (2000). Thus for SPSS version 16.0 programme, the present study uses 0 to code low resource commitment entry mode and 1 to code high resource commitment entry mode. See table 3 below for variables and their operational measures

Table 4. Variables and their operational measures

Variables	Operational measures (items)	Scale	Sources
Dependent variable			
Entry mode	Non-equity mode (low resource committed mode), Equity mode (high resource committed mode)	1 = equity mode 0 = non equity mode	Erramilli and D'Souza (1995), Ekeledo (2000), Rasheed (2005), Erramilli and Rao (1993), Brouthers and Nakos (2004), Erramilli, Agarwal and Dev (2002)
Independent variables			
Firm size	Number of employees,	1 = 10-19, 2 = 20- 49, 3 = 50- 99, 4 = 100 – 249, 5 = 250- 499, 6 = 500-999, 7 = 1000+	Agarwal and Ramaswami (1992), Aulakh and kotabe (1997)
	total worldwide sales volume/turnover	–	Aulakh and kotabe (1997)
International experience	Geographical spread/scope of operation	1)No international operation prior to entry, 2)Operations in European countries, 3)Operations in one continent outside Europe, 4)Operations in more than one continent outside Europe, 5)Operations in every continent	Kontkanen (2006), Erramilli (1991)
Firm's Unique resources (Proprietary technology and Tacit know-how)	Proprietary technology -unique patent, trademark, trade secret, technology, brand name, managerial technology, product technology, unique benefits, product difficulty for competitors to copy, low cost production, product differentiation	1 = strongly disagree 5 = strongly agree	Wernerfelt (1989), Agarwal and Ramaswami (1992), Williamson (1991), Grant (1991), Poter (1980)
	Tacit know-how - codifiability of production process, complexity of production process, teacheability of production process, transferability of marketing know-how, difficulty in assessing price of know how	1 = strongly disagree 5 = strongly agree	Kogut and Zander (1993), Kim and Hwang (1992)
Moderating Variables			
Political risk	Barrier to earning repatriation, Nationalization risk, Change of government policy or ideology, corruption, Civil war and social unrest	1= not risky 5 = highly risky	Brouthers (1995), Miller (1992), Agarwal and Feils 2007; Rothaermel, Kotha and Steensma 2006
Economic risk	Commercial infrastructure risk, Physical infrastructure risk, High Inflation, Debt defaulting, Demand fluctuation, High interest rate, Currency fluctuation	1= not risky 5 = highly risky	Miller (1993), Sashi and Karuppur (2002), Rothoemel, Kotha and Steensma (2006), Taylor (2000), Brouthers (1995), Ekeledo (2000)

5.4.Test statistics

The first 3 hypotheses (H1-H3) were tested with Chi-square using contingency table.
Chi-square commonly denoted by the Greek letter (X^2) is used to test goodness of fit or independence between variables. It allows the researcher to ascertain the probability that the observe relationship between variables being compared may have arisen by chance (Cramer & Bryman 1997:168). In this study, Chi-square is used to test for independence. That is to explore the relationship between two or more categorical variables (Pallant 2007:214). With chi-square test, the test of statistical significance in general, is the *null hypothesis* of no relationship between the two variables being compared (Cramer & Bryman 1997:168). Since the dependent variable and independent variables including the moderating variables are categorical, this method will best suit the purpose. The Chi-square statistical technique was enabled for use by the grouping the variables that were in ordinal scale after they were summated to form composite variable into categories, details will be discussed later in this section.

The basic assumptions of Chi-square test are the following. First, there must be two categorical variables with two or more categories in each. Second, according to Pallant (2007) lowest expected frequency should be 5 or more but in case of 2 by 2 table the expected frequency should be at least 10. However, when there is a violation of the assumption, as in the case of 2 by 2 tables, Fisher's exact probability test should be considered. Meanwhile Cramer and Bryman (1997) maintained that there is violation of the assumption if any cell has expected frequency of less than 1 or if 20 % or more cells have an expected frequency of less than 5.

The X^2 test, which involves the veracity of falsity of factors influencing the management decision to either adopt equity mode or non equity mode, can be represented mathematically as shown below.

$$X^2 = \frac{(O - E)^2}{E}$$

Where:

O = the observed frequency

E = the expected frequency

The expected frequency can be computed as:

$$E = \frac{\text{Column total x Row total}}{\text{Grand total}}$$

Thus the X^2 test is a measure of any deviation existing between the observed and the expected frequencies i.e. (O – E).

Where no deviation exist, the (O - E) = 0.

The moderating effects of country risks on firm resources and entry mode, that is hypotheses 4.1 to 5.3 (H4.1 to H5.3), was carried out by descriptive statistics presented in tables and figures. The reason why descriptive analysis was chosen is occasioned by the number of usable responses to the survey. Though hierarchical multiple regression statistical technique, which allows the test of moderating effect when the independent variable is dichotomized or categorical, was initially proposed to test these hypotheses, however due to the usable sample size from the survey, that idea was dropped, leaving the option of using descriptive statistics. According to Pallant (2007:148 citing Tabachnick & Fidell 2007), the use of hierarchical multiple regression requires that sample size should be $N > 50 + 8m$ (where m is the number of independent variables). The same applies to other techniques such as logistic regression that allow the test of moderating effect when the dependent variable is dichotomous. If these statistical techniques are used, the result can not be generalized and will be of little scientific significance (Pallant 2007).

Before the entire test was conducted firm's unique resources, political risk, and economic risk that had series of indicators (items) that were measured with 5-point likert scale, the

response to the questions based on the indicators for each latent variable were summed and transformed to determine the overall scores of responses. An average score for each case base on the correspondent latent variable was obtained. The samples of the newly computed variables were split at the median following the 5-point likert scale that was used for the measurement, and effect coding was introduced. According to Cramer (2003:241), effect coding is a method of defining variable in which two groups to be identified are coded as 1 and -1 respectively and the other groups are coded 0.

Firm's unique resources variable was divided into low, moderate, and high firm's unique resources. Political risk and economic risk, each was divided into low, moderate, and high risk. For the effect coding, low was coded -1 and high was coded 1. Moderate was coded 0. The values before the median value were coded low (-1) while the values after the median were coded high (1). For firm size and international experience, one indicator for each was used.

5.5. Decision rule for test

The X^2 test decision rule goes as follows:

Reject the stated *null hypothesis* if the calculated value of X^2 is higher than the table value at the specific significant level say P = 0.05 (alpha=0.05). Otherwise, accept the *null hypothesis* if the calculated value is lower.

Note that the statistical hypothesis is usually stated as the null hypothesis (Ho) and the alternative hypothesis (Ha). However, a single hypothesis was stated for this research, where the relationships between the variables being studied are tested. As a rule, the null hypothesis (Ho) is always rejected if the calculated value is higher than the table value, in that case the alternative hypothesis (Ha) is accepted. Therefore, since the test of statistical significance is the *null hypothesis* of no relationship between the two variables, it means

when the calculated values is higher than the table value at a particular level of significance, for example at 0.05, there is a significant relationship between variables being compared. This rule applies to Hypothesis 1 to 3 (H1 to H3).

Since it is descriptive statistics that is used to analyze the moderating effect of political and economic risk on firm resources and entry mode, no specific decision rule is provided for accepting or rejecting the hypothesis. The reason is that the test of statistical significance is not applicable in this case. Thus the rejection or acceptance of hypotheses is based on the counts of responses per category of country specific risk, which is either political risk or economic risk.

5.6. Validity and reliability of the present study

The extent to which survey instrument assesses and supports what it measure is termed validity. According to Alreck and Settle (1985: 64), a survey instrument is said to be valid when it is not affected by external factors, thus such instrument must not be affected by external factors that modify the results in different directions. To determine validity of a research, four methods can be applied, which are face, content, criterion and construct (Mc Daniel & Gates 2005; Fink 1995). These four ways of examining survey validity have their various ways by which they examine research survey validity. For example, *Face Validity* test tries to examine the validity of survey from the researcher's point of view. This kind of judgment is often refers to as weak validity measure, because the researcher judge the degree to which a measurement instrument seems to assess what it is supposed to from his or her point of view. *Content Validity* test refers to the extent to which the characteristic of what is intended to measure is thoroughly and appropriately examined. The judgment from content validity test is based from group point of view not from a single researcher's point. This group is trained people in the respect. The *Criterion Validity* test uses comparative measures to examine the extent to which survey instrument assesses and support what it measures. To this end, it compares the responses to survey questions during the research to

future performance of variable, that is predictive validity, or to those obtained from other more well established surveys.

The other validity test is the *Construct Validity* test, which measures the extent to which an operationalization measures the concept which it claims to measure. It involves a theoretical view of rational that characterizes the obtained measurements. There are two types of construct validity. They are convergent validity and divergent (discriminant) validity. According to Litwin (1995: 43-44.), convergent validity is use to obtained the same information about a given concept by using several different techniques, while divergent validity estimates the underlying truth in a given area, usually to demonstrate a lack of correlation among different constructs.

Meanwhile, in this paper the questionnaires, which were used to obtain information needed for this research, were developed after a review of literature concerning the subject matter. Most questions were adapted from other researches of similar studies, which have already obtained validity. Besides, a pilot test was carried out to restructure the questionnaire so as to strengthen the validity of information obtained during the survey. The process of the pilot test was that, the first draft of the questionnaire, which was about 8 pages, was sent to the thesis supervisor to verify if there will be changes to be made. The result suggests restructuring. Then in the restructuring process, some friends in the same field of study were also contacted to help determine if the questionnaire will suit easy response. This led to a reduction of the questionnaire and was later developed to web format, which was later sent to 10 managers among the potential target respondents, unfortunately, no response after a week of sending questionnaires. I then assume that there may be problem with the length of the questionnaire. Meanwhile, the questionnaire that was developed into web format was later sent to the thesis supervisor for cross-checking. This then led to another modifications, the length of the questionnaire was then reduced to 5 pages.

Thus in most cases most of the validity measurement were used especially criterion validity, predictive validity and construct validity were taken into account.

Reliability test measures the consistency with which a measure produces the same outcome with the same or comparable populations. That is, it measures how reproducible the data obtained by survey instrument is. It follows that errors do exist during research process. However, it is pertinent to minimize the existence of errors in research work. Two types of errors could exist, measurement error and random error. *Measurement error* refers to how well or poorly a particular instrument performs in a given population. Malhotra & Birks (2003: 312) argue that a measurement is not considered to be the true value of the characteristic of interest but rather an observation of it. According to Litwin (1995), the lower the measurement error, the closer the data are reliable. Random error on the other hand is subject to sampling techniques. It arises from random changes in respondents or measurement situations.

Reliability for this study was conducted by using Cronbach's alpha of internal consistency to check if the latent variables were free from measurement error. SPSS version 16.0 was used to carry out this analysis. According to Pallant (2007:95) quoting DeVellis (2003), Cronbach alpha coefficient of scale should be above .7 in order to be ideally reliable. Meanwhile three variables in this study were measured using Cronbach alpha. Others were adapted from previous research reliability measures. The variables measured are firm's unique resources which has 7 item indicators, political risks with 5 item indicators, and economic risks with 7 item indicators, see chapter 5.4 for the procedure of the reliability test. All measurements were based on 5-point likert scale. The reliability measure for these three variable presented in the three tables below, show that their value are above the ideal .7 Cronbach alpha value. Details are presented in appendix 3

Table 5. Reliability analysis for firm's unique resources.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.737	.741	7

Table 6. Reliability analysis for political risk.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.852	.863	5

Table 7. Reliability analysis for economic risk.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.881	.881	7

6. EMPIRICAL ANALYSIS AND FINDINGS

This section of the research presents the data gathered from the survey carried out for this study, analyze and interpret the data collected from Finnish registered companies in Finland. This section starts with the background analysis, which describes the result of the response from the survey. Next is the impact of firm resources on entry mode decisions, followed by hypothesis testing. In addition, the interactive role of firm's resources and country-specific risk factors in entry mode strategy will be discussed through a descriptive analyses presented tables and figures in order to identify the moderating effect of country risk.

6.1. Background of analysis

Out of 25 usable responses in this study, the host countries entered by these firms were 11. Sweden had the highest entry with 6 cases of entry. This was followed by China, which has 4 entries reported in the survey. Table 8 below shows number of countries entered and the number of entries made by companies based on the usable responses reported in the survey. The reason for the highest entry in Sweden might not be overemphasized as geographical proximity might be one of the reasons. The geographic spread of foreign direct investment (FDI) could be enhanced where market conditions are similar to those found domestically Root (1994). Though other surrounding countries were reported in the survey but the entry cases were not as high as that of Sweden, thus this can be ascribed to other reasons as political and economic risks reasons are other determinants of entry mode choices in this study.

Table 8. Host countries.

Host Countries

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	China	4	16.0	16.0	16.0
	Estonia	2	8.0	8.0	24.0
	India	1	4.0	4.0	28.0
	Latvia	1	4.0	4.0	32.0
	Lithuania	1	4.0	4.0	36.0
	Norway	2	8.0	8.0	44.0
	Poland	2	8.0	8.0	52.0
	Russia	3	12.0	12.0	64.0
	Singapore	1	4.0	4.0	68.0
	South Korea	2	8.0	8.0	76.0
	Sweden	6	24.0	24.0	100.0
	Total	25	100.0	100.0	

Out of the entries, Sweden had 6 equity entries and that was the 6 entry cases reported in the survey. They include 5 wholly owned subsidiaries (WOS) and 1 export-own subsidiary, see appendix 4 and table 9.

China was next to Sweden in number of entry cases. 4 cases were reported in the survey. They include 3 equity modes and a non-equity mode constituted by 3 WOS and 1 licensing, see appendix 4 and table 9 for details. India, Latvia, Lithuania and Singapore had 1 entry case each, which was the minimum entry case reported in the survey.

Table 9. Host countries by entry mode

Host Countries * Entry Mode Crosstabulation

Count				
		Entry Mode		
		Non-equity mode (low resource committed)	Equity mode (High resource committed)	Total
Host Countries	China	1	3	4
	Estonia	1	1	2
	India	0	1	1
	Latvia	0	1	1
	Lithuania	0	1	1
	Norway	0	2	2
	Poland	0	2	2
	Russia	2	1	3
	Singapore	0	1	1
	South Korea	1	1	2
	Sweden	0	6	6
	Total	5	20	25

The size of firm was measured with number of employees. Table 10 below represents the firm size by number of employee category reported in the survey. These categories were later reclassified into large, medium and small size firms. However, no medium size firm was reported in the survey (see table 10), thus in this study small and large firms will only be used in the analysis. According to European Union's definition of firm size, firms with less than 50 employees are regarded as small firms, those that have less than 250 employees as medium firms while 250 employees and above are lager firms. Employee categories 10-19 and 20-49 represent small firms, while employee categories 250-499, 500-999 and 1000+ represent large firms.

Table 10. Number of Employees category by firm size.

	Number of Employees category by Firm Size				
		Firm Size			
Firm Size by number of Employees category		Small	medium	Large	Total
	10-19	3	0	0	3
	20-49	2	0	0	2
	50-99	0	0	0	0
	100-249	0	0	0	0
	250-499	0	0	3	3
	500-999	0	0	3	3
	1000+	0	0	14	14
	Total	5	0	20	25

Following the classification by large and small size category is presented in table 11 and table 10; large size firms had the highest number of entries, which were 20 entries. That is 80% of the total entries made reported in the survey. Small firms had 5 entries cases, which represents 20% of the total entry cases reported in the survey.

Table 11. Firm size.

Firm Size

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Small	5	20.0	20.0	20.0
	Large	20	80.0	80.0	100.0
	Total	25	100.0	100.0	

Companies by industry sector presented in table 12 shows that amongst all sectors represented, food industry had the highest number of 5 cases scoring 20% reported in the survey. Followed by machinery and equipment, 3 entry cases were reported in the survey, representing 12% of the total entry cases. The minimum number was 1, which cut across various industry sectors.

Table 12. Business sector.

Business sector

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Automation systems and products	1	4.0	4.0	4.0
	Building insulation manufacturing	1	4.0	4.0	8.0
	Chemicals and chemical product	1	4.0	4.0	12.0
	Construction industry	2	8.0	8.0	20.0
	Electricity and telecom networks	1	4.0	4.0	24.0
	Energy	2	8.0	8.0	32.0
	Environmental and facility service	1	4.0	4.0	36.0
	Food industry	5	20.0	20.0	56.0
	International Airline	1	4.0	4.0	60.0
	IT services	1	4.0	4.0	64.0
	Logistics	1	4.0	4.0	68.0
	Machinery and equipment	3	12.0	12.0	80.0
	Oil refining	1	4.0	4.0	84.0
	Other professional services	1	4.0	4.0	88.0
	Paper and forest products	1	4.0	4.0	92.0
	Technical trade	2	8.0	8.0	100.0
	Total	25	100.0	100.0	

6.2. The impact of firm resources on entry mode decisions

Following the response from survey, it can be established that Finnish firms have varying views as to how they thought their resources would help to marshal their entry mode decisions.

Firm size, as has been described above, were made up of lager and small firms that responded to the survey. Two questions were used to get information about the size of the responding Finnish firm. They were question 6 and 7. Question 6 was design to obtain information about the number of employees, while question 7 was used to obtain information about the annual sales turnover. Question 7 was however dropped due to inconsistencies and missing figures, thus let alone with question 6, which was used to determine firm size.

The figure 3 below presents the role firm size plays in entry mode decisions made by Finnish firms that were reported in the survey. It can be understood from the figure that both large and small Finnish firms have preference for equity mode than non-equity mode. About 60% of small firms choose equity entry mode while 40% was accounted for non-equity entry mode. Though large firms also prefer equity entry mode of over 80% as in the case of small firms, the case of equity entry mode with regards to large firms was however higher than that of small firms comparatively. This might be occasioned by the fact that large firm has more resources for equity entry modes. Nevertheless, large firms have small preference for non-equity entry mode. It is well noticed in figure 3, large firm score below 20% preference for non-equity entry mode as opposed to small firms with 40% score for non-equity entry mode.

It is worthwhile to reiterate the argument in the literature part (chapter 3) that there are varying result as to the influence of firm size on entry mode choice, this result of responses represented in figure 3 could somewhat fit into the findings that firm size is not a determinant of entry mode choices as small firms in this case made entry choices similar to

entry choices made by large firms. In the case of large firms, it can however, be established that their preference for non-equity entry is quite small, and equity entry mode is higher in this case, this is supported by finding in previous research (see Root 1994; Taylor, Zou & Osland 2000; Ekeledo 2000), but the fact that small firms also used equity entry mode in this study, this findings needs to be tested statistically to determine the significant association between firm size and entry mode. This will be done later during hypothesis testing.

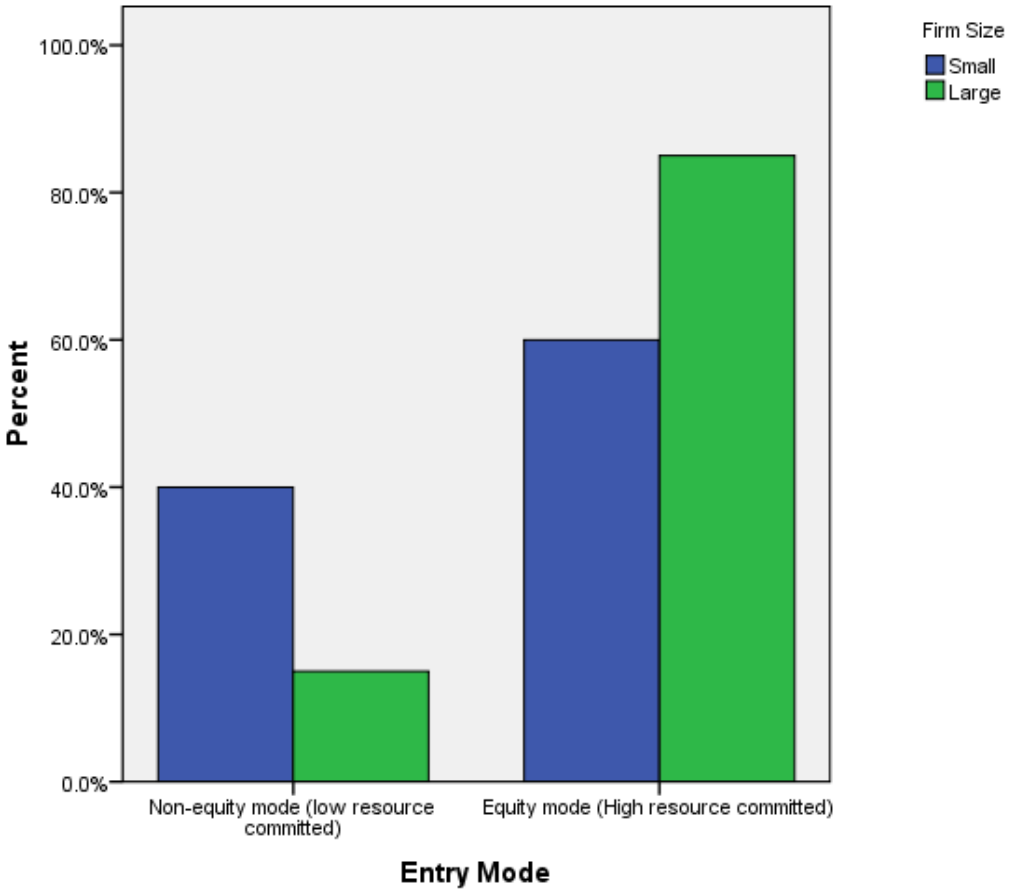

Figure 3. Chart representing the relationship between firm size and entry mode

International experience has also played a vital role in determining entry mode strategy made by Finnish firms reported in his study. Erramilli (1991) used geographical scope to measure the level of firm's international experience. Kontkanen (2006) adopted this

measure to measure the level of international experience from the Finnish firms' perspective based on geographical spread. This measure has been found vital for this study since the study is base on Finnish firms' international operations; hence the measure was applied for this study by using question 9 (see appendix 1).

Figure 4 presents the role international experience may have played in the entry mode decisions made by Finnish firms that was reported in the survey. Finnish firms with no international experience prior entry, had at the time of entry, had preference for equity mode. As represented in figure 4, none of the firms with no international experience prior entry choose non-equity entry mode. This finding tends to contradict some findings in literature about firms with little or no international experience. According to Erramilli (1991), at the early state of firms' international evolution, they tend to accept share control mode as oppose to full control mode such as WOS. However, Erramilli (1991:481) also counter agued that new firm may desire to employ high resource commitment entry mode because of its desire for high degree of control, for example WOS. That argument would seem to see this present finding supported. Meanwhile, both Finnish firms with international operations in Europe and firms with operations in every continent preferred equity mode. The preference by firms with the highest level of international experience for equity entry mode can not be overemphasized since a number of literatures had supported this finding, (see chapter 3.5.2 for details of this discussion). Finnish firms with foreign operations in more than one continent outside Europe had a little above 40% preference for equity entry mode but with a little less than 60% preference for low resources committed entry mode. Similarly, Finnish firms with operations in one continent outside Europe had 50% preference each for non-equity entry mode and equity entry mode.

Since international experience is one of the intangible resources that helps firms to derive competitive advantage (see chapter 3.3.2), the relationship between it and entry mode needs to be further tested statistically. This will be carried out during hypothesis testing.

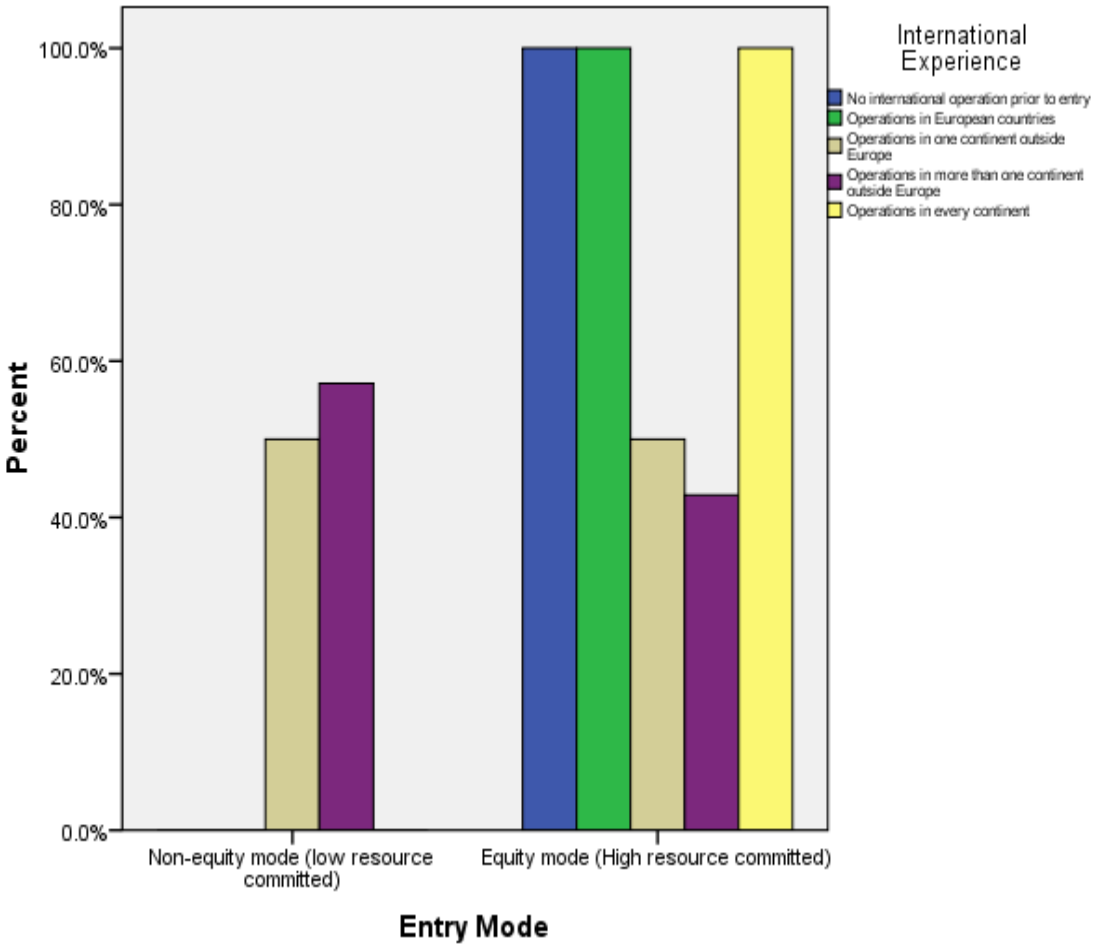

Figure 4. Chart representing the relationship between international experience and entry mode

Figure 5 represents how firm's unique resources helps Finnish firms for drive their entry mode strategy. Following the measurement used by Ekeledo (2000) question 10 was used to obtain this information. Seven indicators were used for the measure. Table 13 present the list of the indicators. The latent variables for firm's unique resources were summated to get the overall score of responses for each case reported in the survey, the result were divided to obtain low moderate and high firm's unique resources, details and procedure was discussed in chapter 5.4 ' Test statistics'.

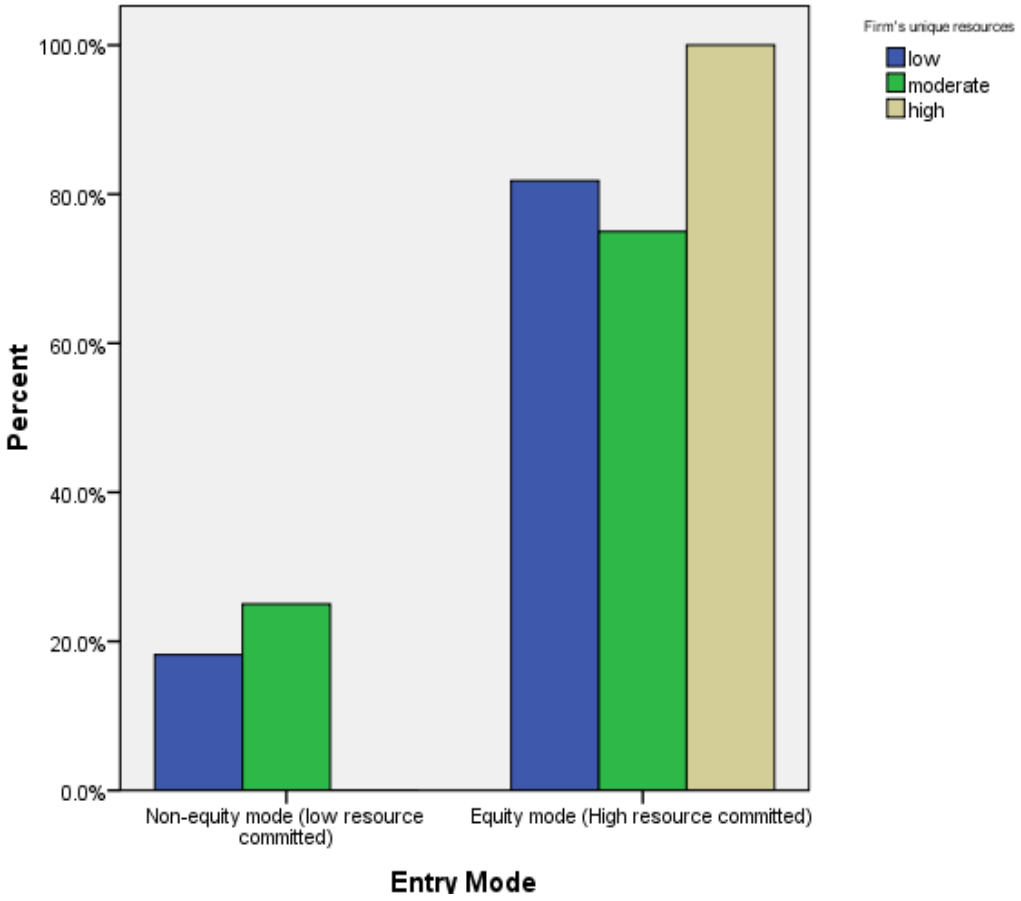

Figure 5. Chart representing the relationship between firm's unique resources and entry mode

Figure 5 demonstrated that both firms with low medium and high firm's unique resources prefer to use equity entry mode except all firms with high unique resources preferred just equity entry mode. It can be reiterated at this juncture that firm's unique resources as used in this study are made up of proprietary technology (proprietary know-how) and tacit know how. These are mostly intangible resources, which are human knowledge based according to the literature review section in chapter 3, and could enable firm to break and scale through the challenges of business environment both internal and external. Possibly that is why Finnish firm with high unique resources prefer equity entry mode.

Table 13. List of indicators for firm's unique resources.

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Our firm's proprietary know-how and tacit know-how difficulty in duplication by our competitors by studying the blueprint (e.g. unique patent, trademark, trade secret, brand name etc.)	25	1	5	2.36	1.287
Our firm's proprietary know-how and tacit know-how is difficult to imitate and they are particular to our firm	25	1	5	2.56	1.121
Difficulty in transferring our tacit and proprietary know-how such as trade secret, production process, marketing know-how etc	25	1	5	2.52	1.159
High level of complexity of our production processes	25	1	5	2.48	.963
Difficulty in training new production and /customer contact personnel	25	1	4	2.36	1.036
Difficulty in measuring our tacit know how and proprietary technology because of the intangibility nature	25	1	4	2.52	.918
Our firm's proprietary know-how and tacit know-how are unique because the cost of removing such resource is high once it is installed on partner	25	1	4	2.44	1.121
Valid N (listwise)	25				

In order to test hypotheses 1 to 3, Chi-Square test was conducted for the influence of firm resources on entry mode. The relationship between firm resources (firm size, international experience and firm's unique resources) and entry mode (equity mode and non-equity mode) were presented in contingency tables respectively.

To test hypotheses 1 to 3, Chi-square test was conducted to determine if there is a relationship between the level of resource commitment in entry mode and firm resources.

Hypothesis 1: The larger the firm size, the higher the propensity to choose high resource committed entry mode (equity mode).

Table 14 presents the Chi-Square test for the relationship between firm size and entry mode

Since the calculated value of chi-square is less than the table value (theoretical value), it can be said that there is no significant relationship between firm size and entry mode strategy. The Chi-Square test in table 14 below shows that X^2 (1, N=25) = 1.562, P = .211 (P = .252, Fisher's Exact Test), which is less than the table value of 5.991 at .05 level of significance. That is 1.562 <5.991.

Table 14. Result of Chi-Square test for firm size and entry mode relationship.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)	Point Probability
Pearson Chi-Square	1.562[a]	1	.211	.544	.252	
Continuity Correction[b]	.391	1	.532			
Likelihood Ratio	1.382	1	.240	.544	.252	
Fisher's Exact Test				.252	.252	
Linear-by-Linear Association	1.500[c]	1	.221	.544	.252	.215
N of Valid Cases	25					

a. 3 cells (75.0%) have expected count less than 5. The minimum expected count is 1.00.

b. Computed only for a 2x2 table

c. The standardized statistic is 1.225.

Table 15 represents the contingency table of the relationship between firm size and entry mode. A total number of twenty entries were reported in the survey. Non-equity mode accounted for 5 (20%), while equity entry mode accounted for 20 (80%). Small size firms' entries for non-equity modes were 2, which is 8% of the total entries. Large firms accounted for 3 (20%) non-equity entries of the total entries. On the other hand, small firms accounted for 3 (12%) equity mode of the total entries, while large firms accounted for 17 (68%) of the total entries that were reported in the survey.

Table 15. Contingency table for firm size and entry mode relationship**.**

Entry Mode * Firm Size Crosstabulation

			Firm Size		
			Small	Large	Total
Entry Mode	Non-equity mode (low resource committed)	Count	2	3	5
		% within Entry Mode	40.0%	60.0%	100.0%
		% within Firm Size	40.0%	15.0%	20.0%
		% of Total	8.0%	12.0%	20.0%
	Equity mode (High resource committed)	Count	3	17	20
		% within Entry Mode	15.0%	85.0%	100.0%
		% within Firm Size	60.0%	85.0%	80.0%
		% of Total	12.0%	68.0%	80.0%
	Total	Count	5	20	25
		% within Entry Mode	20.0%	80.0%	100.0%
		% within Firm Size	100.0%	100.0%	100.0%
		% of Total	20.0%	80.0%	100.0%

Hypothesis 2: The greater international experience a firm has the greater the use of high resource committed entry mode

Table 16 presents the Chi-Square test for the relationship between international experience and entry mode. Since the calculated value of chi-square is higher than the table value (theoretical value), it can be said that there is a significant relationship between international experience and entry mode. The Chi-Square test in table16 below shows that X^2 (4, N=25) = 11.161, P = .025 which is higher than the table value of 9.488 at .05 level of significance. That is 11.161> 9.488.

Table 16. Result of Chi-Square test for international experience and entry mode relationship.

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.161[a]	4	.025
Likelihood Ratio	12.687	4	.013
Linear-by-Linear Association	3.070	1	.080
N of Valid Cases	25		

a. 8 cells (80.0%) have expected count less than 5. The minimum expected count is .40.

The contingency table below, Table 17 can further be used to analysis the Chi-Square test result. Having stated the total low resource and high resource entries that were reported in the survey in the test for hypothesis 1, the various entries accounted for by Finnish firms with various level of international experience are explained below.

In the low resource commitment entry category, firms with no international operation prior entry, firms with international operations in Europe, and firms with international operations in every continent outside did not report that they entered any country with this operation mode. Only firms with international operations in one continent outside Europe and firms with operations in more than one continent outside Europe reported that the entered with this operation mode, the former accounted for 1(4%) entry while the later accounted for 4 (16%) entries of the total entries reported in the survey.

In the high resource entry mode category, all firms with various levels of international experience entered with this operation mode. Firms with no international operations prior entry accounted for 2 (8%) entries, firms with operations in Europe accounted for 11 (44%) entries, firms with operations in one continent outside Europe accounted for 1 (4%) entries, firms with operations in more than one continent outside Europe accounted for 3 (12%),

and firms with operations in every continent accounted for 3 (12%) of the total entries reported in the survey.

Table 17. Contingency table for international experience and entry mode relationship.

Entry Mode * International Experience Crosstabulation

			International Experience					
			No international operation prior to entry	Operations in European countries	Operations in one continent outside Europe	Operations in more than one continent outside Europe	Operations in every continent	Total
Entry Mode	Non-equity mode (low resource committed)	Count	0	0	1	4	0	5
		% within Entry Mode	.0%	.0%	20.0%	80.0%	.0%	100.0%
		% within International Experience	.0%	.0%	50.0%	57.1%	.0%	20.0%
		% of Total	.0%	.0%	4.0%	16.0%	.0%	20.0%
	Equity mode (High resource committed)	Count	2	11	1	3	3	20
		% within Entry Mode	10.0%	55.0%	5.0%	15.0%	15.0%	100.0%
		% within International Experience	100.0%	100.0%	50.0%	42.9%	100.0%	80.0%
		% of Total	8.0%	44.0%	4.0%	12.0%	12.0%	80.0%
	Total	Count	2	11	2	7	3	25
		% within Entry Mode	8.0%	44.0%	8.0%	28.0%	12.0%	100.0%
		% within International Experience	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
		% of Total	8.0%	44.0%	8.0%	28.0%	12.0%	100.0%

Hypothesis 3: The higher the firm's unique resources, the higher the propensity to choose high resource committed entry mode (equity mode).

Table 18 presents the result of Chi-Square test for firm's unique resources and entry mode relationship.

Since the calculated value of chi-square is less than the table value (theoretical value), it can be said that there is no significant relationship between firm's unique resources and entry mode strategy. The Chi-Square test in table 17 below shows that X^2 (2, N=25) = .710, P = .701 which is less than the table value of 5.991 at .05 level of significance. That is .710< 5.991.

Table 18. Result of Chi-Square test for firm's unique resources and entry mode relationship

Chi-Square Tests

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	.710[a]	2	.701
Likelihood Ratio	1.093	2	.579
Linear-by-Linear Association	.025	1	.875
N of Valid Cases	25		

a. 4 cells (66.7%) have expected count less than 5. The minimum expected count is .40.

Table 19 describes the entry mode by unique resources. It can be noted that out of the total entries, firms with low unique resources accounted for 2 (8%) non-equity entries, firms with moderate unique resources accounted for 3 (12%) non-equity entries, while firms with high unique resources did not embark on non-equity entry as reported in the survey. In the equity entries on the other hand, firms with low unique resources accounted for 9 (36%) entries, firms with moderate unique resources accounted for 9(36%) entries, while firms with high unique resources accounted for 2 (8%) entries out of the total entries reported in the survey. The non-significant relationship between high unique resources and equity entry mode, which resulted from the Chi-Square test statistic, can further be explained by the percentage of entries made by firms. On equity modes (high resources committed), firms with low level of unique resources accounted for 45%, firms with moderate unique resources accounted for 45%, while firms with high level of unique resources accounted for 10%. That helps to explain why high firm's unique resources do not increase the likelihood of equity entry mode.

Table 19. Contingency table for firm's unique resources and entry mode relationship.

Entry Mode * Firm's unique resources Crosstabulation

			Firm's unique resources			
			low	moderate	high	Total
Entry Mode	Non-equity mode (low resource committed)	Count	2	3	0	5
		% within Entry Mode	40.0%	60.0%	.0%	100.0%
		% within Firm's unique resources	18.2%	25.0%	.0%	20.0%
		% of Total	8.0%	12.0%	.0%	20.0%
	Equity mode (High resource committed)	Count	9	9	2	20
		% within Entry Mode	45.0%	45.0%	10.0%	100.0%
		% within Firm's unique resources	81.8%	75.0%	100.0%	80.0%
		% of Total	36.0%	36.0%	8.0%	80.0%
	Total	Count	11	12	2	25
		% within Entry Mode	44.0%	48.0%	8.0%	100.0%
		% within Firm's unique resources	100.0%	100.0%	100.0%	100.0%
		% of Total	44.0%	48.0%	8.0%	100.0%

In summary, as a result of the small sample size used, there were violations of the assumptions relating to the use of Chi-square test (see chapter 5.4 for the various assumptions). For example, the test for hypothesis 1 shows 3 cell (75%) have expected frequency of less than 5; the with minimum expected count is 1, hence Fisher's Exact Test probability was reported as recommended for 2 by 2 Chi-test on the occasion of the violation of the assumption. Similarly, there were also violations in the test of hypotheses 2 and 3. As a result, the report for these tests has limitations; therefore it is of little scientific value.

6.2.1. The moderating effect of political risk on firm resources and entry mode

The theoretical analyses of the possible moderating effect of political risk on firm resources and entry mode have been carried out in chapter4. The effect of political risk on firm resources and entry mode on the basis of the present study will be analyzed based on the stated hypothesis and the result of the descriptive analysis presented in tables accordingly.

Hypotheses 4.1: High political risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode).

Table 20 below presents the descriptive statistics for the moderating effect of political risk on firm size and entry mode.

In low political countries, a total of 16 entries were made by Finnish firms out of which were 3 non-equity entries and 13 equity entries. Small firms accounted for 1 non-equity entry (33.3%), while large firms accounted for 2 (66.7%) out of the total 3 non-equity entries made. For equity entries, large firms accounted for 11 entries while small firms accounted for 2. In moderate political risk countries, a total of 7 entries were reported in the survey. While 1 non-equity entry was made, 6 equity entries were made out of the 7 entries. Within the entries made by small and large firm, for non-equity entry, small firm accounted for the 1 and only entry, thus large Finnish firms did not embark on non-equity entries in moderate political risk countries. It follows that the 6 high resources committed entries reported in the survey were made by large Finnish firms. Moreover, 2 entries were made in high political risk countries, 1 non-equity entry and 1 equity entry as reported in the survey. Small firm accounted for the only one high resource entry, while large firm accounted for the only one low resource entry reported in the survey.

Table 20. Entry mode by firm size with a relative political risk.

Entry Mode * Firm Size * Political risk Crosstabulation

Political risk				Firm Size		
				Small	Large	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	1	2	3
			% within Entry Mode	33.3%	66.7%	100.0%
			% within Firm Size	33.3%	15.4%	18.8%
			% of Total	6.2%	12.5%	18.8%
		Equity mode (High resource committed)	Count	2	11	13
			% within Entry Mode	15.4%	84.6%	100.0%
			% within Firm Size	66.7%	84.6%	81.2%
			% of Total	12.5%	68.8%	81.2%
		Total	Count	3	13	16
			% within Entry Mode	18.8%	81.2%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	18.8%	81.2%	100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count	1	0	1
			% within Entry Mode	100.0%	.0%	100.0%
			% within Firm Size	100.0%	.0%	14.3%
			% of Total	14.3%	.0%	14.3%
		Equity mode (High resource committed)	Count	0	6	6
			% within Entry Mode	.0%	100.0%	100.0%
			% within Firm Size	.0%	100.0%	85.7%
			% of Total	.0%	85.7%	85.7%
		Total	Count	1	6	7
			% within Entry Mode	14.3%	85.7%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	14.3%	85.7%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count	0	1	1
			% within Entry Mode	.0%	100.0%	100.0%
			% within Firm Size	.0%	100.0%	50.0%
			% of Total	.0%	50.0%	50.0%
		Equity mode (High resource committed)	Count	1	0	1
			% within Entry Mode	100.0%	.0%	100.0%
			% within Firm Size	100.0%	.0%	50.0%
			% of Total	50.0%	.0%	50.0%
		Total	Count	1	1	2
			% within Entry Mode	50.0%	50.0%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	50.0%	50.0%	100.0%

This finding is further presented in figure 6 below. The figure shows that in a high political risk environment, large firm do not use equity entry mode, but the use of non-equity entry mode. Meanwhile, it seems small Finnish firms are likely to take more risk than large firm as represented in figure 6.

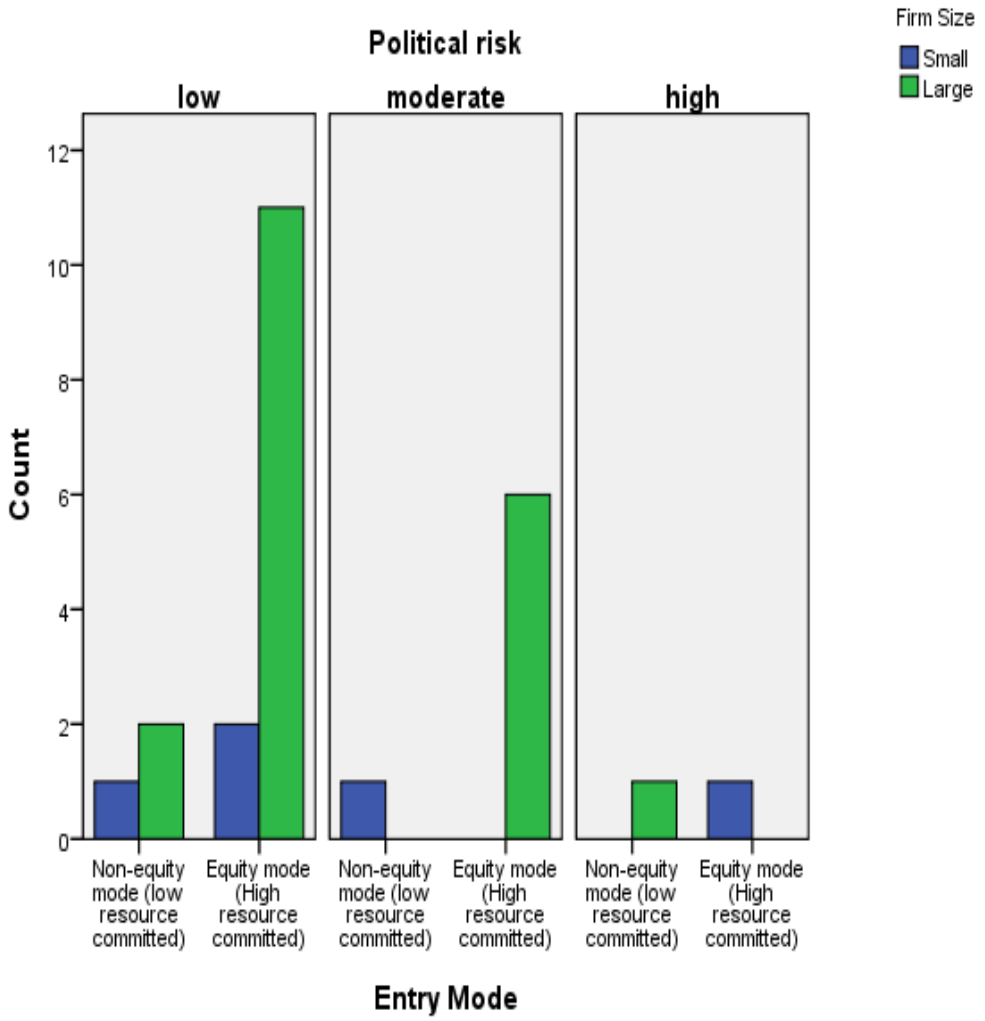

Figure 6. Chart representing the moderating effect of political risk on firm size and entry mode.

Hypothesis 4.2: High political risk does not reduce the propensity of firm with high level of international experience to use high resources committed entry mode (equity mode)

Table 21 presents the descriptive statistics for the moderating effect of political risk on international experience and entry mode.

In low political risk countries, a total of 16 entries were made by Finnish firms reported in the survey. Out of the 16 entries non-equity entry mode accounted for 3 (18.8% of the total entries in low political risk countries), while 13 (81.2%) entries were equity modes. Only firms that have operations in more than one continents outside Europe accounted for the 3 non-equity entry modes, while others embarked on equity entry mode at the time of entry. Out of the 13 equity entries, firms with no international operations accounted for 2 (12.5%), firms with operations in Europe accounted 6, which represents 37.5% of the total entries, only one firm with operations in one continent outside Europe accounted for 1 entry representing 6.2%, firms with operations in more than one continent outside Europe accounted for 2 that is 12.5% of the total entries made in low political risk countries, while firms with operations in every continents accounted for the remaining 2 entries, which represents 12.5% of the total entries.

In moderate political risk countries, a total of 7 entries were reported in the survey. Out of the 7 entries, 1 (14.3%) was non-equity mode while the remaining 6 (85.7%) entries were equity modes. Firms with no international operations prior entry have no operations in moderate political risk. The remaining firms with different levels of international experience had operations of different levels of resource commitments, which are discussed as follow. Firms with operations in Europe did not embark on non-equity mode but equity modes and accounted for 4 entries which represent 57.1% of the total entries engaged on by Finnish firms in moderate political risk countries reported in the survey. Amongst firms with operation in one continent outside Europe, one of them only have one operations which is low resources committed mode representing 14.3% of the total entries. In the same way, amongst firms with operations in more than one continent outside Europe and those that have operations in every continent, one each has equity entry mode but not low resource entry mode which represent 14.3% each of the total entries made in moderate political risk countries that were reported in the survey.

Finally, in high political risk countries, only two firms reported that they have operations. They are firm with operations in Europe and firm with operations in more than one

continent outside Europe with 1 entry mode each, each representing 50% of the total entries made in high political risk countries by firms with varying levels of international experience. The firm with operations in Europe entered with equity entry mode while the other firm with operations in more than one continent outside Europe entered with non-equity entry mode.

Table 21. Entry mode by international experience with a relative political risk

Entry Mode * International Experience * Political risk Crosstabulation

Political risk				International Experience					
				No international operation prior to entry	Operations in European countries	Operations in one continent outside Europe	Operations in more than one continent outside Europe	Operations in every continent	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	0	0	0	3	0	3
			% within Entry Mode	.0%	.0%	.0%	100.0%	.0%	100.0%
			% within International Experience	.0%	.0%	.0%	60.0%	.0%	18.8%
			% of Total	.0%	.0%	.0%	18.8%	.0%	18.8%
		Equity mode (High resource committed)	Count	2	6	1	2	2	13
			% within Entry Mode	15.4%	46.2%	7.7%	15.4%	15.4%	100.0%
			% within International Experience	100.0%	100.0%	100.0%	40.0%	100.0%	81.2%
			% of Total	12.5%	37.5%	6.2%	12.5%	12.5%	81.2%
		Total	Count	2	6	1	5	2	16
			% within Entry Mode	12.5%	37.5%	6.2%	31.2%	12.5%	100.0%
			% within International Experience	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
			% of Total	12.5%	37.5%	6.2%	31.2%	12.5%	100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count		0	1	0	0	1
			% within Entry Mode		.0%	100.0%	.0%	.0%	100.0%
			% within International Experience		.0%	100.0%	.0%	.0%	14.3%
			% of Total		.0%	14.3%	.0%	.0%	14.3%
		Equity mode (High resource committed)	Count		4	0	1	1	6
			% within Entry Mode		66.7%	.0%	16.7%	16.7%	100.0%
			% within International Experience		100.0%	.0%	100.0%	100.0%	85.7%
			% of Total		57.1%	.0%	14.3%	14.3%	85.7%
		Total	Count		4	1	1	1	7
			% within Entry Mode		57.1%	14.3%	14.3%	14.3%	100.0%
			% within International Experience		100.0%	100.0%	100.0%	100.0%	100.0%
			% of Total		57.1%	14.3%	14.3%	14.3%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count		0		1		1
			% within Entry Mode		.0%		100.0%		100.0%
			% within International Experience		.0%		100.0%		50.0%
			% of Total		.0%		50.0%		50.0%
		Equity mode (High resource committed)	Count		1		0		1
			% within Entry Mode		100.0%		.0%		100.0%
			% within International Experience		100.0%		.0%		50.0%
			% of Total		50.0%		.0%		50.0%
		Total	Count		1		1		2
			% within Entry Mode		50.0%		50.0%		100.0%
			% within International Experience		100.0%		100.0%		100.0%
			% of Total		50.0%		50.0%		100.0%

The result from the above is further represented graphically in figure 7 below

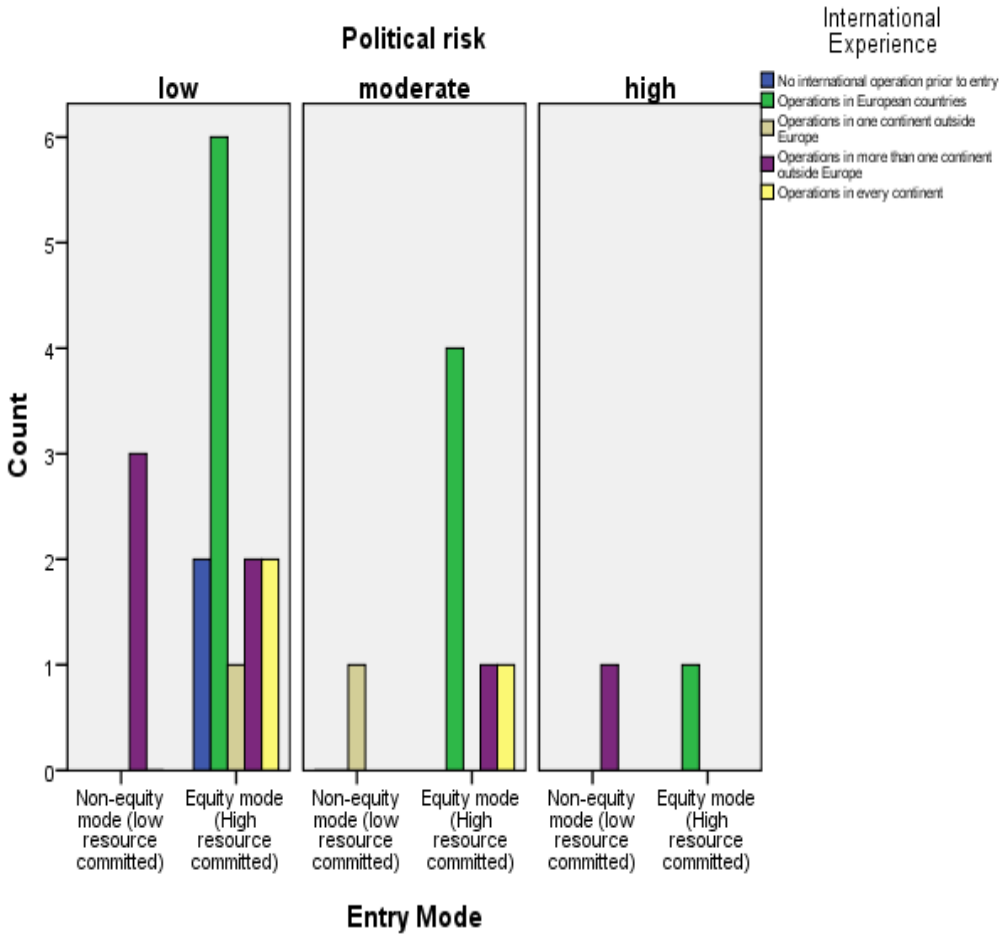

Figure 7. Chart representing the moderating effect of political risk on international experience and entry mode

Hypothesis 4.3: High political risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode).

Table 22 presents the descriptive statistics for the moderating effect of political risk on firm's unique resources and entry mode. Having first in the previews hypotheses specified the number of entries in various levels of political risk, what is more imperative to present in this hypothesis is the number of entries made by firms in various categories of firm's unique resources in relative to the level of political risk.

Only firms with low and moderate firm's unique resources have operations in low political risk countries that were reported in the survey. Firms with low unique resources entered with 2 non-equity modes and 7 equity modes, which represent 12.5% and 43.8% respectively of the total entries made in low political risk countries. While firms with moderate unique resources entered with 1 non-equity entry mode and 6 equity entry modes, which represent 6.2% and 37.5% respectively of the total entries.

Firms in all categories of firm's unique resources have operations in moderate political risk countries. However, it was only firms with moderate unique resources that entered with both non-equity entry mode and equity entry mode, which accounted for 1 (14.3%) and 3 (42.9%) respectively of the total entries made. The other two categories of firms entered with equity modes, which accounted for 1 (14.3%) and 2 (28.6%) respectively of the total entries made by Finnish firms in this category of political risk. In high political risk countries, the survey response showed that no firm with high unique resources entered with either low resourced committed entry modes or high resources committed entries. Firm with moderate unique resources entered with non-equity entry mode, which accounted for 1(50%) and firm with low unique resources entered with high resources committed entry mode, which accounted for 1 (50%) on the total entries made in this category of political risk environment.

Table 22. Entry mode by firm's unique resources with a relative political risk

Entry Mode * Firm's unique resources * Political risk Crosstabulation

Political risk				Firm's unique resources			
				low	moderate	high	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	2	1		3
			% within Entry Mode	66.7%	33.3%		100.0%
			% within Firm's unique resources	22.2%	14.3%		18.8%
			% of Total	12.5%	6.2%		18.8%
		Equity mode (High resource committed)	Count	7	6		13
			% within Entry Mode	53.8%	46.2%		100.0%
			% within Firm's unique resources	77.8%	85.7%		81.2%
			% of Total	43.8%	37.5%		81.2%
		Total	Count	9	7		16
			% within Entry Mode	56.2%	43.8%		100.0%
			% within Firm's unique resources	100.0%	100.0%		100.0%
			% of Total	56.2%	43.8%		100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count	0	1	0	1
			% within Entry Mode	.0%	100.0%	.0%	100.0%
			% within Firm's unique resources	.0%	25.0%	.0%	14.3%
			% of Total	.0%	14.3%	.0%	14.3%
		Equity mode (High resource committed)	Count	1	3	2	6
			% within Entry Mode	16.7%	50.0%	33.3%	100.0%
			% within Firm's unique resources	100.0%	75.0%	100.0%	85.7%
			% of Total	14.3%	42.9%	28.6%	85.7%
		Total	Count	1	4	2	7
			% within Entry Mode	14.3%	57.1%	28.6%	100.0%
			% within Firm's unique resources	100.0%	100.0%	100.0%	100.0%
			% of Total	14.3%	57.1%	28.6%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count	0	1		1
			% within Entry Mode	.0%	100.0%		100.0%
			% within Firm's unique resources	.0%	100.0%		50.0%
			% of Total	.0%	50.0%		50.0%
		Equity mode (High resource committed)	Count	1	0		1
			% within Entry Mode	100.0%	.0%		100.0%
			% within Firm's unique resources	100.0%	.0%		50.0%
			% of Total	50.0%	.0%		50.0%
		Total	Count	1	1		2
			% within Entry Mode	50.0%	50.0%		100.0%
			% within Firm's unique resources	100.0%	100.0%		100.0%
			% of Total	50.0%	50.0%		100.0%

The above descriptive statistics for H4.3 is also represented in the figure 8 below. The figure illustrates that Finnish firms with low unique resource could only embarked on equity entry mode in a high political risk country. While Finnish firms with high unique resources prefer to invest in moderate political risk country.

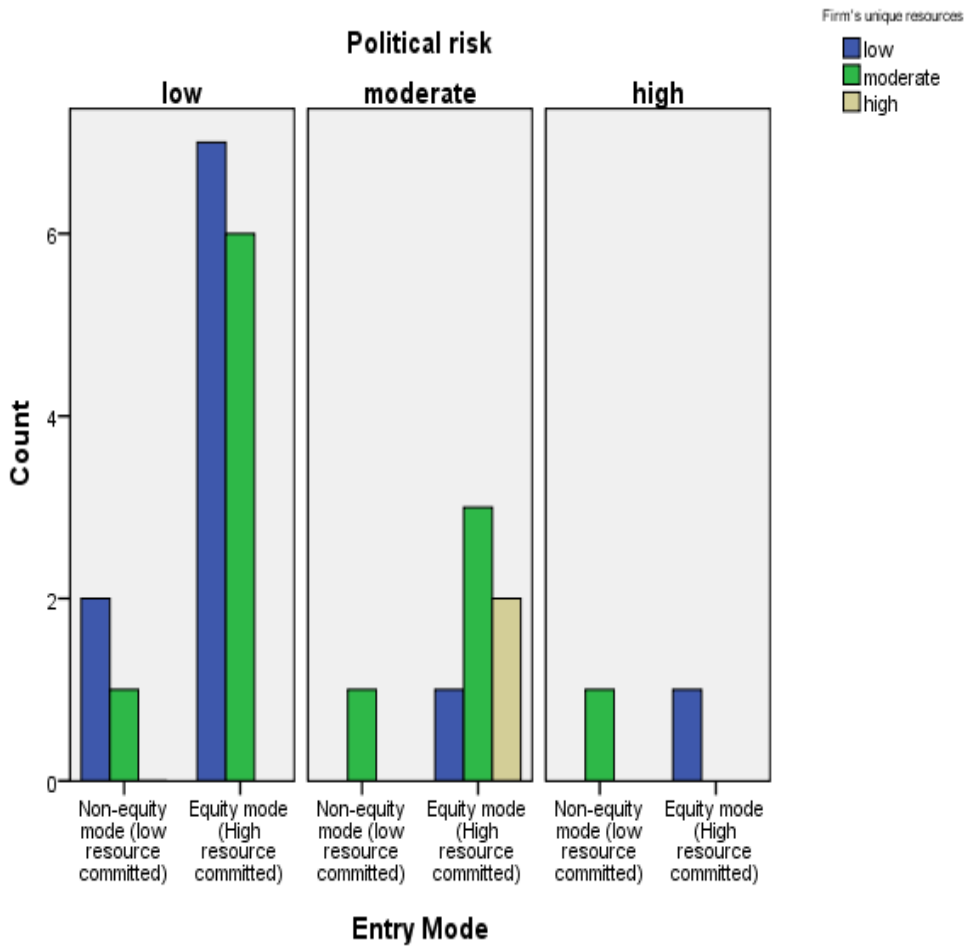

Figure 8. Chart representing the moderating effect of political risk on firm's unique resources and entry mode.

6.2.2. The moderating effect of economic risk of firm resources and entry mode

Having earlier analyzed the possible moderating effect of economic risk in chapter 4, based on the hypothesis stated and the result from the descriptive statistics of the moderating effect of economic risk on firm resources and entry mode is analyzed as follows.

Hypothesis 5.1: High economic risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode)

Table 23 presents the descriptive statistics for the moderating effect of economic risk on firm size and entry mode.

As reported in the survey, small or large Finnish firms have at least one level of operation or the other in all categories of economic risk countries. In low economic risk countries, out of the total 16 entries, small firms accounted for 1 non-equity entry mode and 1 equity entry mode, which represent 6.2% each of the total entries reported in the survey. Large firms on the other hand, accounted for 2 non-equity entry modes and 12 equity entry modes, which represent 12.5% and 75% respectively.
In moderate economic risk countries, large firms did not enter with non-equity entry mode. In this case, small firms accounted for 1 non-equity entry mode and 1 equity entry mode representing 20% each of the total entries, while large firms accounted for 3 equity entry mode representing 60% of the total entries in this category of economic risk.

Furthermore, in high economic risk country, small firm accounted for 1 high resources committed entry mode representing 25%, no low resources committed entry mode was reported for small firms in the survey, while large firms accounted for 1 non-equity entry mode and 2 equity entries modes, which represent 25% and 50% respectively for the total entries made in this category of economic risk.

Table 23. Entry mode by firm size with a relative economic risk

Entry Mode * Firm Size * Economic risk Crosstabulation

Economic risk				Firm Size		
				Small	Large	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	1	2	3
			% within Entry Mode	33.3%	66.7%	100.0%
			% within Firm Size	50.0%	14.3%	18.8%
			% of Total	6.2%	12.5%	18.8%
		Equity mode (High resource committed)	Count	1	12	13
			% within Entry Mode	7.7%	92.3%	100.0%
			% within Firm Size	50.0%	85.7%	81.2%
			% of Total	6.2%	75.0%	81.2%
		Total	Count	2	14	16
			% within Entry Mode	12.5%	87.5%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	12.5%	87.5%	100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count	1	0	1
			% within Entry Mode	100.0%	.0%	100.0%
			% within Firm Size	50.0%	.0%	20.0%
			% of Total	20.0%	.0%	20.0%
		Equity mode (High resource committed)	Count	1	3	4
			% within Entry Mode	25.0%	75.0%	100.0%
			% within Firm Size	50.0%	100.0%	80.0%
			% of Total	20.0%	60.0%	80.0%
		Total	Count	2	3	5
			% within Entry Mode	40.0%	60.0%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	40.0%	60.0%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count	0	1	1
			% within Entry Mode	.0%	100.0%	100.0%
			% within Firm Size	.0%	33.3%	25.0%
			% of Total	.0%	25.0%	25.0%
		Equity mode (High resource committed)	Count	1	2	3
			% within Entry Mode	33.3%	66.7%	100.0%
			% within Firm Size	100.0%	66.7%	75.0%
			% of Total	25.0%	50.0%	75.0%
		Total	Count	1	3	4
			% within Entry Mode	25.0%	75.0%	100.0%
			% within Firm Size	100.0%	100.0%	100.0%
			% of Total	25.0%	75.0%	100.0%

Note: some percentages are rounded up.

The above descriptive statistics is further illustrated in figure 9 below. The figure shows that small Finnish firms are more inclined to embark on equity entry mode in high economic risk environment, which indicates that the moderating influence of economic risk on small Finnish firms is not significant as compared to large Finnish firms.

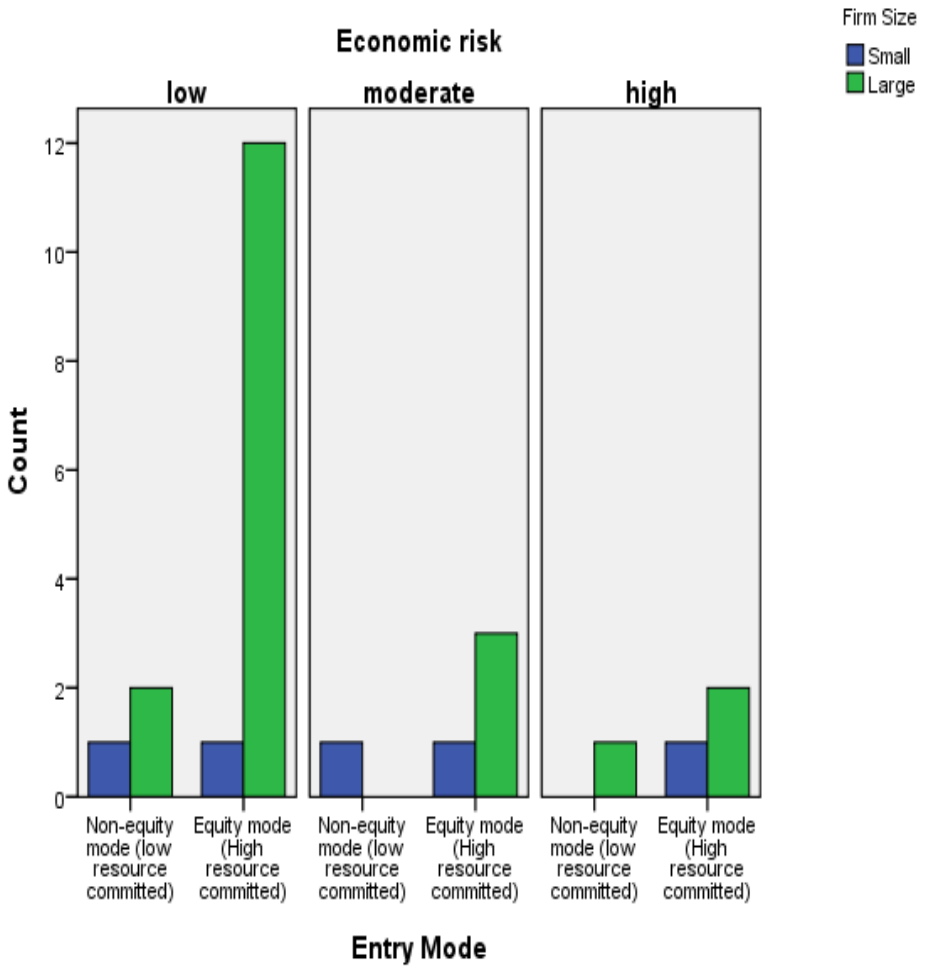

Figure 9. Chart representing the moderating effect of economic risk on firm size and entry mode.

Hypothesis 5.2: High economic risk reduces the propensity of firm with high level of international experience to use high resource committed entry mode (equity mode)

Table 24 presents the descriptive statistics for the moderating effect of economic risk on international experience and entry mode.

In low economic risk countries, none of the firms but firms with operations in more than one continent outside Europe accounted for 3 non-equity entry mode, which represents

18.8% of the total entry made in low economic risk countries. Firms with no international experience accounted for 2 equity entry mode, firms with international operations in Europe accounted for 5 equity entry mode, firms with international operation in one continent outside Europe accounted for 1 high resource entry mode, firms with international operations in more than one continent outside Europe accounted for 3 equity entry mode, while firms with international operations in every continent accounted for 2 entry mode, which represent 12.5%, 31.2%, 6.2% 18.8% and 12.5% respectively of the total entries made in low economic risk countries.

In moderate economic risk countries a total of 5 entries were reported in the survey, 1 non-equity mode and 4 equity modes. No firm with no international operations prior entry and firm with international operations in more than one continent outside Europe reported that it has operations in such country. In this category of economic risk, only one firm reported in the survey that it entered one country with 1 non-equity entry mode, which was accounted for by firm with international operations in one continent outside Europe, which represents 20% of the total entries. In the remaining 4 entries, which are equity entries, firms with operations in Europe accounted for 3 (60%) while a firm with operations in every accounted for 1 (20%) of the total entries in this economic risk category.

In high economic risk countries a total of 4 entries were reported. Firms with no international operations prior entry, firms with international operations in one continent outside Europe and firms with operations in every continent reported in the survey that they did not enter with any for operations mode. Only firms with operations in Europe, which accounted for the 3 (75%) equity entries, and firm with operations in every continent, which accounted for the only 1 (25%) non-equity entry report in the survey that they have operations in high economic risk countries.

Meanwhile, it can be notice in the table that no firm with the highest level of international experience (operations in every continent) had any operations in high economic risk

countries. The same thing applies to firms with the lowest international experience (no international operations prior entry).

Table 24. Entry mode by international experience with a relative economic risk.

Entry Mode * International Experience * Economic risk Crosstabulation

Economic risk				International Experience					
				No international operation prior to entry	Operations in European countries	Operations in one continent outside Europe	Operations in more than one continent outside Europe	Operations in every continent	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	0	0	0	3	0	3
			% within Entry Mode	.0%	.0%	.0%	100.0%	.0%	100.0%
			% within International Experience	.0%	.0%	.0%	50.0%	.0%	18.8%
			% of Total	.0%	.0%	.0%	18.8%	.0%	18.8%
		Equity mode (High resource committed)	Count	2	5	1	3	2	13
			% within Entry Mode	15.4%	38.5%	7.7%	23.1%	15.4%	100.0%
			% within International Experience	100.0%	100.0%	100.0%	50.0%	100.0%	81.2%
			% of Total	12.5%	31.2%	6.2%	18.8%	12.5%	81.2%
		Total	Count	2	5	1	6	2	16
			% within Entry Mode	12.5%	31.2%	6.2%	37.5%	12.5%	100.0%
			% within International Experience	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
			% of Total	12.5%	31.2%	6.2%	37.5%	12.5%	100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count		0	1		0	1
			% within Entry Mode		.0%	100.0%		.0%	100.0%
			% within International Experience		.0%	100.0%		.0%	20.0%
			% of Total		.0%	20.0%		.0%	20.0%
		Equity mode (High resource committed)	Count		3	0		1	4
			% within Entry Mode		75.0%	.0%		25.0%	100.0%
			% within International Experience		100.0%	.0%		100.0%	80.0%
			% of Total		60.0%	.0%		20.0%	80.0%
		Total	Count		3	1		1	5
			% within Entry Mode		60.0%	20.0%		20.0%	100.0%
			% within International Experience		100.0%	100.0%		100.0%	100.0%
			% of Total		60.0%	20.0%		20.0%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count		0		1		1
			% within Entry Mode		.0%		100.0%		100.0%
			% within International Experience		.0%		100.0%		25.0%
			% of Total		.0%		25.0%		25.0%
		Equity mode (High resource committed)	Count		3		0		3
			% within Entry Mode		100.0%		.0%		100.0%
			% within International Experience		100.0%		.0%		75.0%
			% of Total		75.0%		.0%		75.0%
		Total	Count		3		1		4
			% within Entry Mode		75.0%		25.0%		100.0%
			% within International Experience		100.0%		100.0%		100.0%
			% of Total		75.0%		25.0%		100.0%

The above descriptive statistics is further illustrated with figure 10 below.

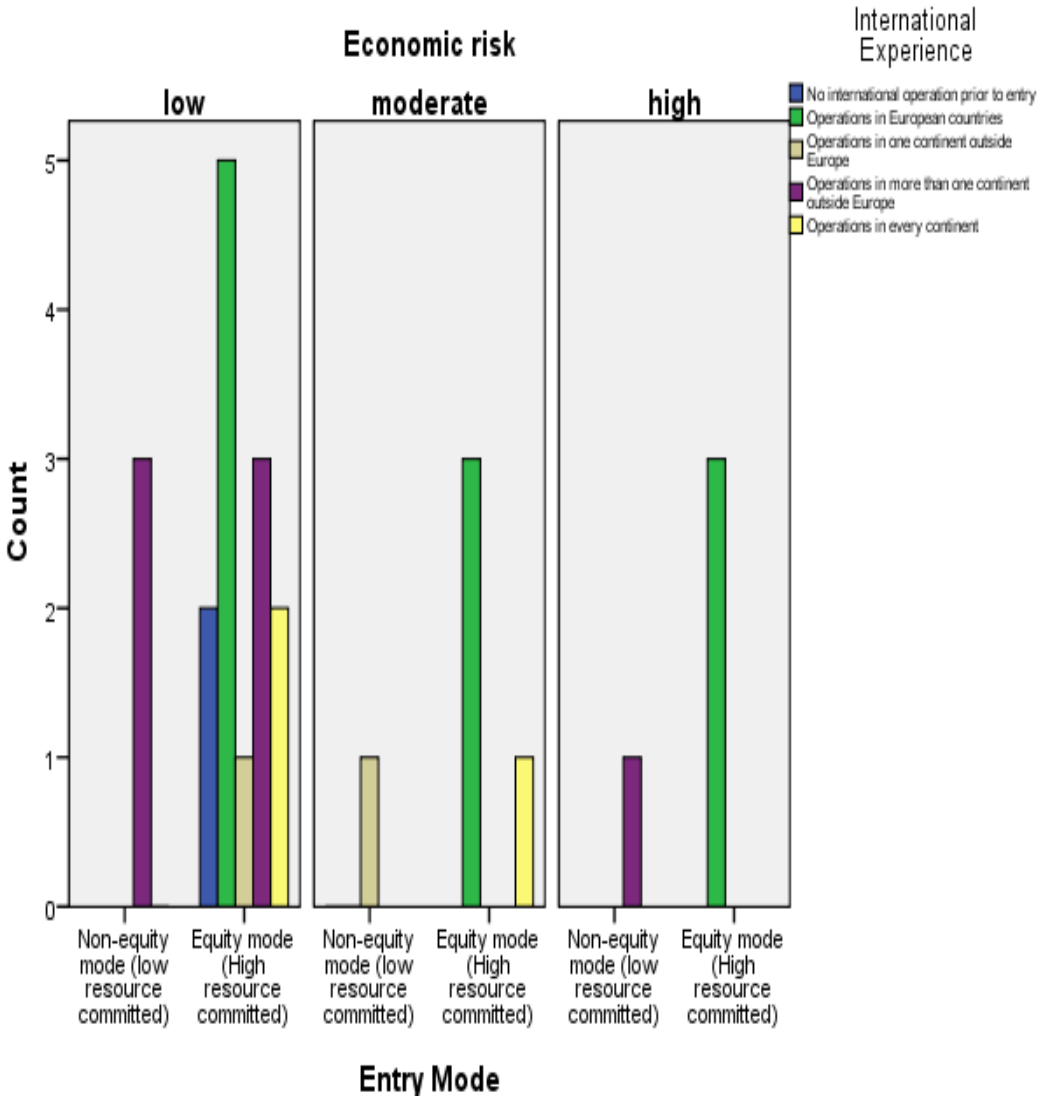

Figure 10. Chart representing the moderating effect of economic risk on international experience and entry mode

Hypothesis 5.3: High economic risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode)

Table 25 presents the descriptive statistics for the moderating effect of economic risk on firm's unique resources and entry mode.

As shown in table 25, in low economic risk countries, a total of 16 entries were reported in the survey.
Firms with low firm's unique resources accounted to 2 non-equity modes and 7 equity modes, which represent 12.5% and 43.8% respectively. Firms with moderate unique resource accounted for 1 (6.2%) non-equity mode and 5(31.2%) equity modes, while a firm with high firm's unique resources accounted for 1 (6.2%) equity entry mode.

In moderate economic risk countries a total of 5 entries were reported in the survey. No firm with low firm's unique resources reported that they have operations. Firms with moderate unique resources accounted for 1 (20%) non-equity mode and 3 (60%) equity mode, while a firm with high firm's unique resources reported they have 1 (20%) equity entry mode out of the total entries in this category of economic risk that were reported in the survey.

In high economic risk countries on the other hand a total of 4 entries were reported. No firm with high unique resources reported that they have operations. Firms with low unique resources accounted for 2 (50%) equity modes, while firms with moderate unique resources a counted for 1 (25%) non-equity mode and 1 (25%) equity mode out of the 4 entries reported in this category of economic risk.

Table 25. Entry mode by firm's unique resources with a relative economic risk.

Entry Mode * Firm's unique resources * Economic risk Crosstabulation

Economic risk				Firm's unique resources			
				low	moderate	high	Total
low	Entry Mode	Non-equity mode (low resource committed)	Count	2	1	0	3
			% within Entry Mode	66.7%	33.3%	.0%	100.0%
			% within Firm's unique resources	22.2%	16.7%	.0%	18.8%
			% of Total	12.5%	6.2%	.0%	18.8%
		Equity mode (High resource committed)	Count	7	5	1	13
			% within Entry Mode	53.8%	38.5%	7.7%	100.0%
			% within Firm's unique resources	77.8%	83.3%	100.0%	81.2%
			% of Total	43.8%	31.2%	6.2%	81.2%
		Total	Count	9	6	1	16
			% within Entry Mode	56.2%	37.5%	6.2%	100.0%
			% within Firm's unique resources	100.0%	100.0%	100.0%	100.0%
			% of Total	56.2%	37.5%	6.2%	100.0%
moderate	Entry Mode	Non-equity mode (low resource committed)	Count		1	0	1
			% within Entry Mode		100.0%	.0%	100.0%
			% within Firm's unique resources		25.0%	.0%	20.0%
			% of Total		20.0%	.0%	20.0%
		Equity mode (High resource committed)	Count		3	1	4
			% within Entry Mode		75.0%	25.0%	100.0%
			% within Firm's unique resources		75.0%	100.0%	80.0%
			% of Total		60.0%	20.0%	80.0%
		Total	Count		4	1	5
			% within Entry Mode		80.0%	20.0%	100.0%
			% within Firm's unique resources		100.0%	100.0%	100.0%
			% of Total		80.0%	20.0%	100.0%
high	Entry Mode	Non-equity mode (low resource committed)	Count	0	1		1
			% within Entry Mode	.0%	100.0%		100.0%
			% within Firm's unique resources	.0%	50.0%		25.0%
			% of Total	.0%	25.0%		25.0%
		Equity mode (High resource committed)	Count	2	1		3
			% within Entry Mode	66.7%	33.3%		100.0%
			% within Firm's unique resources	100.0%	50.0%		75.0%
			% of Total	50.0%	25.0%		75.0%
		Total	Count	2	2		4
			% within Entry Mode	50.0%	50.0%		100.0%
			% within Firm's unique resources	100.0%	100.0%		100.0%
			% of Total	50.0%	50.0%		100.0%

Figure 11 below shows that Finnish firms with both moderate and low unique resources carried out equity entry mode except that firms with high unique resources only made equity entry in low and moderate economic risk countries. This shows that economic risk has no significant moderating effects on low and moderate unique resources.

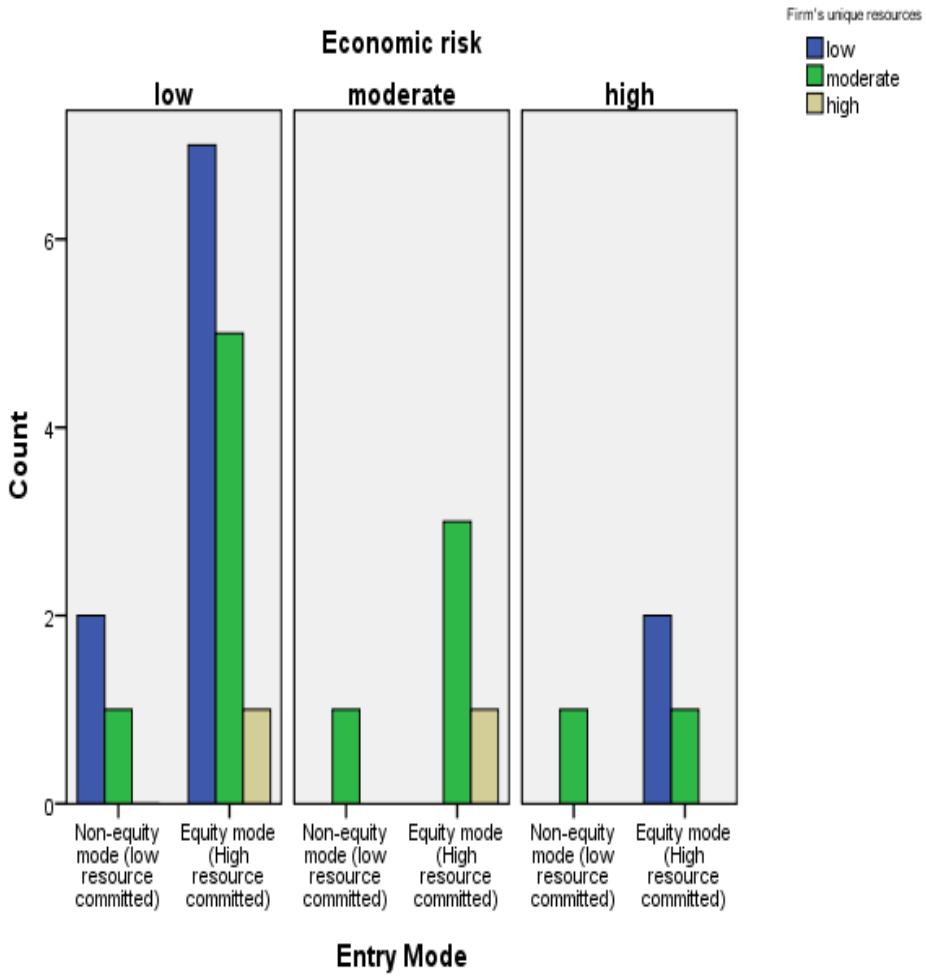

Figure 11. Chart representing the moderating effect of economic risk on firm's unique resources and entry mode

Table 26. Summary of empirical results of the hypotheses in the study.

H1	The larger the firm size, the higher the propensity to choose high resource committed entry mode (equity mode).	Not supported
H2	The greater international experience a firm has the greater the use of high resource committed entry mode	Supported
H3	The higher the firm's unique resources, the higher the propensity to choose high resource committed entry mode (equity mode)	Not supported
H4.1	High political risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode)	Supported Based on descriptive analysis
H4.2	High political risk does not reduce the propensity of firm with high level of international experience to use high resources committed entry mode (equity mode)	Not supported Based on descriptive analysis
H4.3	High political risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode)	Supported Based on descriptive analysis
H5.1	High economic risk reduces the propensity of large firm size to use high resource committed entry mode (equity mode)	Not supported Based on descriptive analysis
H5.2	High economic risk reduces the propensity of firm with high level of international experience to use high resource committed entry mode (equity mode)	Supported Based on descriptive analysis
H5.3	High economic risk reduces the propensity of firm with high unique resources to use high resource committed entry mode (equity mode)	Supported Based on descriptive analysis

7. SUMMARY AND CONCLUSIONS

This study has so far carried out enormous literature review and tested hypothesis related to the main subject matter. This section will first of all summarize the research findings, followed by the managerial implications of findings. Finally, future research areas not covered in this present study will be recommended.

7.1. Summary

This project was designed to find out what firm resources will impact the use of high resource committed entry mode and the moderating effect of country specific risks on such entry strategy. This project was meant to focus on Finnish companies with international business operations. For quite a number of years now, Finnish companies are known to have grown rapidly through international business operations, hence the purpose to find out the role their resources play in ensuring their entry strategy and whether country specific risks have constrained their use of high resource committed entry mode.

A number of literatures were reviewed in the theoretical background of this study in order to identify what findings have been established from previous researches concerning the subject matter of this project. In the process, many firm resources that give firms competitive edge in the international environment were identified. However, this study could only focus on few of the many firm resources in order to avoid complexity in the findings, thus ensuring a focused research design. More so, many country risks were identified, and a focus were made on political and economic risk. These country specific risks were identified as have played a key role in entry mode decisions of the firm.
To drive this focused area, a resources base approach was adopted, while other approaches were also identified. According to Ekeledo (2000), Anderson and Gatignon (1986), the resource based assumption of international market entry, according to literature, is given the condition that favours foreign market entry mode strategy by high resource committed

entry mode such as wholly owned subsidiary based on the fact that the demand for product is high so as to recoup the high overhead cost of going by wholly owned subsidiary, but when the market condition is not favourable, a lower resource commitment mode is preferable.

First in the process of review literature, following the objectives of this study, foreign market entry modes were identified and the level of resource commitment including the risk exposure were identifies. This was to give the reader insight on international market entry modes.

Second was the identification of types of firm resources. Through this, firm tangible and intangible resources were identified, on which many firm resources are classified. Meanwhile three type of firm resources based on the tangibility and intangibility were selected to test their impact on entry mode strategy as far as the level of resource commitment is concern. They were one tangible resource, and two tangible resources, which are firm size, and international experience and firm's unique resources respectively. The finding in literature revealed contradictory result when this firm resources are deployed to used as determinants of entry mode strategy, that were later tested in this research.

The third area that was identified in the literature review section was country risks. This was to understand various findings about their influence on firm resources and entry mode. In some of the findings in the literature country risk moderate firm resources and entry mode while other finding revealed that they have no moderating influence.

Finally, the empirical part of this study test the impact of firm resources on entry mode and the moderating influence of political risk and economic risk on the relationship between firm resources and entry mode. The findings revealed that it is not all firm resources that are able to withstand the shock of political and economic risk, while some resources can stand it, thus serving a better competitive drive. This finding agrees with the resource based assumption of the firm, based on the condition that favours foreign market entry mode

strategy, firm would choose high resource committed entry mode such as wholly owned subsidiary in the sense that the demand for product is high so as to recoup the high overhead cost of going by wholly owned subsidiary. But when the market condition is not favourable, a lower resource commitment mode is preferable. This is however consequent upon how individual firm sees its resources to be in terms of competencies, having said that this result contradict some earlier findings.
The concluding reports for hypothesis tested are further discussed below.

7.2.Conclusions

The finding for hypothesis 1 is similar to Ekeledo (2000) conclusion that firm size may not be a good criterion for entry mode selection for non-separable service firms. This hypothesis was not supported. It follows that small firms would also prefer equity entry mode just like the large firms. In table 15, while the total number of small firms in the cases tested was 5, 3 of them made equity entry mode at the time of entry. Although large firms accounted for the highest number of equity (high resource committed entries), however, judging from the percentage within firm size based on equity mode, it can be noted that 60% within small firms considered equity entry mode as a better entry option than non-equity entry mode, while 85% within large firms considered equity entry mode as a better option. Thus showing that size of Finnish firms does not substantially determine higher resource committed entry mode. The descriptive analyses presented in figure 3 also prove this case.

The finding from hypothesis 2 proved that Finnish firms with more international experience would favour equity entry mode. Ekeledo and Sivakumar (1998) reported similar finding in hard service or manufacturing category. The report revealed that hard service or manufacturing firms would prefer linear pattern (low resource commitment mode), and wholly owned subsidiary would be preferred by much more experienced firm. Gatignon and Anderson (1988) found that manufacturing MNCs will increase the use of WOS, which

involves high resource commitment when they have cumulative international experience. Thus it can be established that the level of international experience does actually increase the likelihood of using high resource committed entry mode. Thus the hypothesis was supported. Although there was a significant relationship between the level of international experience and high resource committed entry mode, it is however noticeable in table 17 that firms with no international experience prior entry also engaged in high resource committed entry mode. Possibly the reason can be explained by another factor.

The result from hypothesis 3 confirmed that high level of firm's unique resources does not actually increase the likelihood of using equity mode, and the hypothesis can not be accepted. Though this study combine proprietary technology and tacit know how as firm's unique resources, but in a separate findings, Ekeledo (2000) found no significant relationship between tacit know how and WOS, which is a high resource committed entry mode, but in the case of proprietary knowhow, Ekeledo (2000) found significant relationship, thereby having a partial support for this present finding. On the other hand, this finding is totally in consistent with Kim and Hwang (1992) findings for tacit know how. Kim and Hwang (1992) set the same criteria for the prediction of the relationship. The criteria was WOS or joint venture versus franchising, and there was a significant relationship with tacit know how and WOS.

The result for the moderating effect of political risk on firm size and entry mode, though was contradictory to some postulations in the literature reviews section, however, this finding supports the finding of Agarwal and Ramaswami (1992) that host country with high probability of policy risks, like restrictive policies, hinders the use of equity mode, and thus encourages non-equity mode that was discussed during the hypothesis formulation. In other words in a high political risk environment, large Finnish firm are likely to reduce their level of resource commitment, instead, they will prefer to use non-equity entry mode. Although the sample size used for this analysis is small, however, the number of entries made by large firms and small firms in a relative political risk environment comparatively based on equity and non equity entries, it can be understood that large Finnish firms have more

preference for low political risk countries than high risk countries than small firms in terms of high resource committed entry mode. It then seems that high political risk reduces the propensity of large Finnish firms to use high resource committed entry mode in a high political risk country. Hence this hypothesis can be accepted based on the descriptive analysis.

However, the result from the descriptive analysis for hypothesis H5.1 is in line with argument made by Luostarinen and Welch (1990:241) that "it is probably easier to live with economic instability than political instability given an instance of living with inflation and devaluation but not with armed revolution". Since both small and large Finnish firms have equity operations in high economic risk countries, it is apparent that it can be concluded that high economic risk has no moderating effect on firm size. This sounds to have contradicted what was discussed in literature review, though the statistical significance of this report was not tested. For this reason, that hypothesis cannot be accepted based on the descriptive analysis. In comparison, one prominent issue that is revealed about economic risk effects is that both large and small Finnish firm made equity entries in high economic risk environment as opposed to high political risk environment.

Based on the descriptive result, it is evidenced that there is a moderating effect of political and economic risks on high level of international experience and entry mode. However, there seem to be a partial support for these hypotheses. The reason is that the graphical analysis showed (see figures 7 and 10) that firms with operations in Europe had operations in high political and economic risk countries. Despite no statistical technique was used to verify the significance of this analysis. Ekeledo (2000:160) found similar problem in the statistical test of international business experience and entry mode. Though the findings proved significant but the relationship stated in the hypothesis was supposed to be a positive relation. The result of the findings proved a negative significant relationship, thus raising the question of sample size and interaction effect.

The reason why this problem exists in this present study might not be unconnected with the sample size. Besides, another reason could be that firms with no international operations prior entry did not account for any operation in either high economic risk or political risk countries, likewise firms with highest level of international experience. For H4.2, since firms with the highest level of international experience, that is those having operations in every continent do not have operations, whether non-equity mode or not in high political risk countries, to ascertain if high political risk has a moderating effect becomes questionable. Similarly, firms with the lowest level of international experience (no international operations prior entry) have no operations in high political risk countries. Though seeing that firms with operations in every continent have no operations in high political risk countries, one can conclude that high political risk has moderating effect on high level of international experience. However, since no statistical inference was drawn, it might be inconclusive to say that there is moderating effects. Meanwhile, judging from the entry mode used by firms with operations in more than one continent outside Europe, it can be observed that in high political risk countries, non-equity modes were used. This thus means that there could be a likelihood of moderating effect on high level of international experience and entry mode. Apart from one of the firms who have operations in Europe that entered high political risk country with equity entry mode, none of other firms had equity operation in high political risk countries. But it can be understood that many of the Finnish firms that were reported in the survey prefer high resource committed entry, which is the basis of resources base theory that posits firms' preference for control of it resources especially their competencies that helps to drive competitive advantage, however, high resources committed entry mode were only made in low political risk countries.

It can therefore be concluded that, since the proportion of Finnish firms who had high resource committed entry mode in low political risk countries is more than double those who have high resource committed entry mode in high political risk countries in terms of the level of international experience, there is a moderating effect of high political risk on the level of international experience and entry mode. Then the hypothesis can not be accepted based on the descriptive analysis.

On the other hand, to ascertain the moderating effect of economic risk on the level of international experience and entry mode becomes difficult as no statistical technique was used. However, if it is ascertained by the two categories of international experience, going by the operation mode used, it can be concluded that there is a partial support for the hypothesis. The reason is that since firms with operations in Europe embarked on equity entry mode in high economic risk countries, it can be said that high economic risk has no moderating influence on this lower level of internal experience compared to firms with international operations in more than one continent outside Europe who entered high economic risk country with non-equity entry mode, which can be said to have encountered the moderating effect of high economic risk. Thus, since this study is investigating if high economic risk has a moderating effect on high level of international experience, it can be concluded here that, yes, high economic risk has a moderating effect on high level of international experience, and the hypothesis can be accepted based on the descriptive analysis.

The descriptive result for H4.3 and h5.3 revealed that high political risk and high economic risk have moderating effect on high level of firm's unique resources and entry mode. Based on the argument about the variables that make up the firm's unique resources in this study, it can be concluded that a total avoidance of these high risk market could be the reason why firms with high unique resources had no operations in these markets. For example the analysis of H4.3 can neither be said to be unusual considering the nature of this kind of firm resources. Having argued in the literature review that intangible resources are some of the critical core competencies of the firm and that firm's would not like to loose such competencies in unfavorable market environment, it seems Finnish firms are aware of this. For example proprietary know how would be difficult for firm to allow to franchisee or licensee that can in future becomes a strong rival, take for example the instance cited in the literature review about the prospect of Sony in licensing agreement with AT&T (see chapter 2.2.2). Besides, this was also the argument of Brouthers (1995), Miller (1992) that firms prefer full control to avoid it proprietary know-how to disseminating risk see (chapter 3.5.3 for details). In addition, chapter 4.2.1 also highlighted why in political risk

environment, firms with high level of unique resource would avoid equity or non-equity entry mode, because while avoiding low resources committed entry mode, because of dissemination risk, for WOS the firm would be exposing strategic assets to political risk (see Brouthers 1995; Miller 1992; Agarwal & Feils 2007). Thus the hypothesis can be accepted based on the descriptive analysis.

On the other hand, from the descriptive analysis for H5.3, it can be understood that there is the likelihood that high economic risk has a moderating effect on high level of firm's unique resources and entry mode going by the same reason given in respect with effect of political risk on firm's unique resources and entry mode. At this juncture, it can be reiterated that the RBV focuses on firm core competencies and the competitive advantages accrue. That is, it analyses the firm and suggests that a firm can compete well in a setting when there is conformity between the firm's resources and external opportunity. The fact that high political and high economic risk poses threat to firms, the use of non-equity mode is eminent, but this is consequent upon how firm resources can drive such entry strategy. This is why according to Ekeledo and Sivakumar (1998), a firm can decide to avoid such international market entirely.

Meanwhile, there have not been many researches that have demonstrated moderating effect of country political and economic risks on firm's unique resources and entry mode in previous studies, therefore this study is constrained in making comparisons in this regard. In addition, because no statistical techniques were use to test these hypotheses, this report are mostly supported by theoretical arguments especially those used during the literature review, not necessarily empirical report that is based on scientific significance. Therefore the basis for comparing statistical significance of these analyses might not be fully said to be scientifically valuable, thus it can not be generalized. The reason for this is because of the usable sample size, which limited the study to the use of descriptive analysis.

It can be concluded that, although previous findings related to country risk though not specifically in the same style as it is in this study, it is imperative to note that between the

two country risks that were investigated in this study, firms can manage to stay in economic risk environment than political risk environment (Loustarinen & Welch 1990). For example, firms with low unique resources accounted for 2 equity modes, firms with moderate unique resources accounted for 1 equity entry mode, both in high economic risk countries compare to high political risk countries. The same thing applies to firm size and international experience in comparatives terms between economic risks and political risks. In short, high economic risk did not reduce the use of high resource committed entry mode by both large and small Finnish firms.

However, for international experience, there is a partial support of the hypotheses from the result in the graphical representations, see figure 7 and figure 10 respectively. It can therefore be established that both firm's tangible and intangible resources such as firm size, international experience and unique firm resources could allow firms to strive but it is consequent upon environmental variables that would allow the use these resources strategically, hence the assumptions of RBV theory.

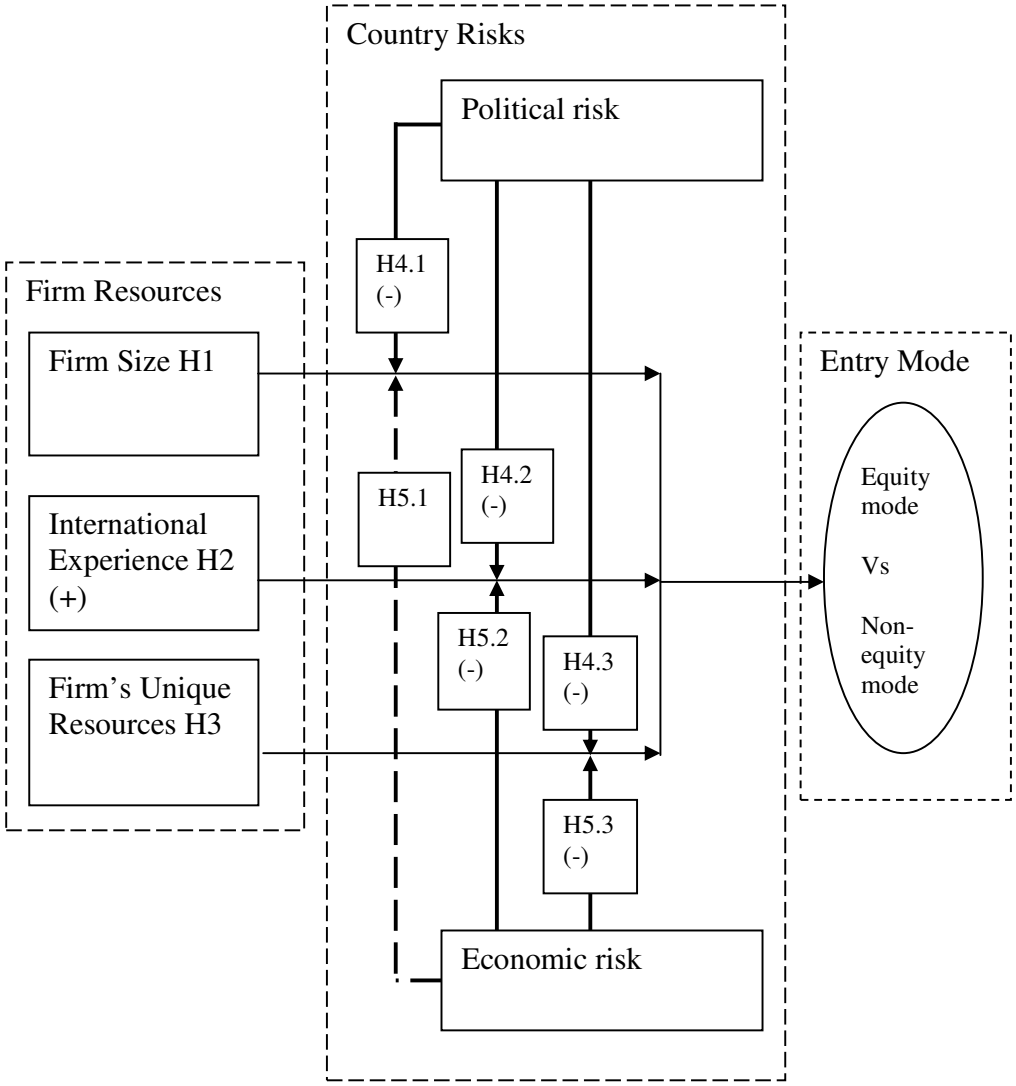

Figure 12. Summary of the findings

Note:

——→ This represents the relationship between firm resources and entry mode.

– – – → This arrow represents the absence of moderating effect.

——→ This arrow represents the presence of moderating effect.

The reason why the big arrows are presented in figure 12 is to acknowledge the presence of economic and political risk. However, the broken represents the presence of high economic risk, but has no influence of firm size and entry mode, precisely equity mode.

Suppose the sample size was large enough so that the required statistical technique can be used for the test, it would have be possible to determine the main effect as well as the moderating influence of political and economic risks on firm resources and entry mode. Thus it is of a great imperative that in a research of this nature, the sample size should be large enough to suit appropriate statistical technique.

7.2.1. Managerial implication

Due to the soar in the global economy, following inflationary trends, drops in company share indexes, managers would by this report know how political and economic risk factors will create a proactive action from them in order to make appropriate decision during international expansions. The fact that business practices vary across industry, the result from this study would help managers, irrespective of the industry in which they operate, choose the appropriate international operation mode that will be able to strive under various political and economic uncertainty in host countries. For example, table 9, which shows entry mode by industry sector as reported in the survey, it can be noticed that many companies irrespective of their various industry sector entered country with WOS, when country risk factors are low, this can also be noticed in appendix 4.

Meanwhile since firm resources, which are internal and as well as controllable by firms as opposed to country risks, which are external, most, which are uncontrollable, management thinkers can by this measure juxtapose their resources with these environmental uncertainty (country risks) and chat the trend of their future investment or entry strategy through proper harnessing of the resources available to them in order to attain their target profitability level.

7.2.2. Future research

As other past studies, this study has some limitations, which have implication for future research.

The first area that could be studied in future in relation to the present study is that a comparative analysis of low country risk and high country risk based on different regional markets, for example two regional markets, instead of general view of different regions at a time. In this case, other resources like physical asset specificity, which is tangible since it is only firm size that is tangible that was examined in this study can be added in future studies. Besides, since this study is limited to investigating Finnish firms, future study could investigate firms in a different country.

Second, focus on a particular industry rather than different industry in a particular study to identify if finding is tied to a particular industry or not, say manufacturing or service industry. The reason is to find out the variation within and between industry sectors. This will enable decision makers to undertake appropriate decisions in relation to the industry in which they operate.

Third, in this study, home country factors were not investigated to find out what proportion of host country specific risk factors will be responsible for a particular entry mode decision. This calls for further research in this area. While considering home country factor, possibly risks factor or the push factor, the interaction terms (effect) of firm resources and host country risk should be controlled, while determining home country impacts.

In all, since this study lacks generalizability dues to sample size, future study should increase the usable sample size for the analysis so that an effective statistical technique such as logistic regression or hierarchical multiple regression or any other statistical technique which tests moderation effect when there is categorical variables can be used to test for statistical significance of the responses to the survey, since small sample size increases the likelihood of response error.

If I am opportune to write this project again, since in the process of conducting this study so many lessons have been learned, these lapses will be put into consideration.

REFERENCES

Agarwal, J. & D. Feils (2007). Political Risk and the Internationalization of Firms: An Empirical Study of Canadian-based Export and FDI Firms. *Canadian Journal of Administrative Sciences* 24, 165-181.

Agarwal, S. (1994). Socio-cultural distance and the choice of joint venture: A contingency perspective. *Journal of International Marketing* 2:2, 63-80.

Agarwal, S. & S. N. Ramaswami (1992). Choice of foreign market entry mode: Impact of ownership, location and internalization factors. *Journal of International Business Studies* 23:1, 1-27.

Alreck, P. & R. B. Settle (1985). *The Survey Research Handbook*. Homewood Illinois (US): Richard D. Irwin Inc. 429p. ISBN 0-256-03174-6.

Ambastha, A. & K. Momaya (2004). Competitiveness of firms: review of theory, frameworks, and models. *Singapore Management Review* 26:1, 45-61.

Amit, R. & P. J. Schoemaker (1993). Strategic Assets and Firm Rents. *Strategic Management Journal* 14:1, 33-46.

Anderson, E. & H. Gitgnon (1986). Modes of entry: A transaction cost analysis and propositions. *Journal of International Business Studies* 17, 1-26.

Aulakh, P. S. & M. Kotabe (1997). Antecedents and Performance Implications of Channel Integration in Foreign Markets. *Journal of International Business Studies*, 28: 1, 145-175.

Barney, J. (1986). Strategic Factor Markets: Expectations, Luck, and Business Strategy. *Management Science* 32:10, 1231-1241.

Barney, J. (1991). Firm Resources and Sustained Competitive Advantage *Journal of Management* 17:1, 99-120.

Barney, J. (2001). Is the resource-based "view" a useful perspective for strategic management research? Yes. *The Academy of Management Review* 26:1, 41-56.

Barney, J B. & S. A. Alvarez (2005). How Do Entrepreneurs Organize Firms Under Conditions of Uncertainty? *Journal of Management* 31:5, 776-793.

Barney, J. B.; Wright, M. & D. J. Jr. Ketchen (2001). The resource-based view of the firm: Ten years after 1991. *Journal of Management* 27, 625–641.

Bartlett, C.A. & S. Ghoshal (1989). *Managing Across Borders: The Transnational Solution*. London: Century Business.

Bhaumik, S. K. & S. Gelb (2005). Determinants of Entry Mode Choice of MNCs in Emerging Markets: Evidence from South Africa and Egypt. *Emerging Markets Finance and Trade* 41:2, 5–24.

Blomström, M. & A. Kokko (2003). The economics of foreign direct investment incentives. *Working Paper* 168, 1-25.

Brouthers, K. D. (1995). The influence of international risk on international entry mode strategy in the computer software industry. *Management International Review* 35:1, 7-28.

Brouthers, K. D. (2002). Institutional, cultural and transaction cost influences on entry mode choice and performance. *Journal of International Business Studies* 33:2, 203-221.

Brouthers, K. D. & J. F. Hennart (2007). Boundaries of the Firm: Insights from International Entry Mode Research. *Journal of Management* 33:3, 395-425.

Brouthers, K. D. & G. Nakos (2004). SME Entry Mode Choice and Performance: A Transaction Cost Perspective. *Entrepreneurship Theory and Practice* 28:3, 229-247.

Brouthers, L. E.; Brouthers, K. D. & S. Werner (2000). Perceived Environmental Uncertainty, Entry Mode Choice and Satisfaction with EC-MNC performance. *British Journal of Management* 11, 183-19.

Brush, C. G.; Edelman L. F & T. S. Manolova (2002). The Impact of Human and Organizational Resources on Small Firm Strategy. *Journal of Small Business and Enterprise Development* 9:3, 236-244.

Brush, C. G; Greene, P. G; Hart, M. M & H. S. Haller (2001). From initial idea to unique advantage: The entrepreneurial challenge of constructing a resource based. *The Academy of Management Executive* 1, 64-78.

Brush, C. G.; Greene, P.; Hart, M. M. & L. F. Edelman (1997). "Resource Configurations over the Life Cycle of Ventures". In *Frontiers of Entrepreneurship Research: Proceedings of the 17th Annual Entrepreneurship Research Conference*, ed. Bygrave W. Babson Park, Mass.: Babson College, 1998.

Burgel, O. & G. C. Murray (2000). The international market entry choices of start-up companies in high-technology industries. *Journal of International Marketing* 8, 33–62.

Chung, H. F. L. & P. Enderwick (2001). An Investigation of Market Entry Strategy Selection: Export vs. Foreign Direct Investment Modes: A home-host Country Scenario. *Asia Pacific Journal of Management* 18:4, 443 – 460.

Claver, E. & D. Quer (2005). Choice of Market Entry Mode in China: the Influence of Firm-Specific Factors". *Journal of General Management* 30:3, 51-70.

Conner, K. R. (1991). A historical comparison of resource based view and five schools of thought within industrial organization economics: Do we have anew theory of the firm?" *Journal of Management* 17:1, 121 – 54.

Conner, K.R. & C. K. Prahalad (1996). A resource-based theory of the firm: knowledge versus opportunism. *Organization Science* 7, 477–501.

Cook, R. G. & D. R. Fox (2000). Resources, Frequency, and Methods: An Analysis of Small and Medium-Sized Firms' Public Policy Activities. *Business & Society*, Vol. 39:1, 94-113.

Cosset, J.-C. & J. Roy (1991). The determinants of country risk ratings". *Journal of International Business Studies* 22, 135-142.

Cramer, D. (2003). *Advance Quantitative Data Analysis*. Open University Press: Maidenhead.

Cramer, D. & A. Bryman (1997). *Quantitative Data Analysis with SPSS for windows: A guide for social scientists*. Routledge: London.

Delios, A. & P. W. Beamish (1999). Ownership Strategy of Japanese Firms: Transactional, Institutional, and Experience influences. *Strategic Management Journal* 20, 915-933.

Douglas, S. P. & C. S. Craig (1989). Evolution of Global Marketing Strategy: Scale, Scope and Synergy. *Columbia Journal of World Business* 24:4, 47-59.

Dunning, J.H. (1981). Explaining the international direct investment positions of countries: towards dyadic and developmental approach. *weltwirtschaftliches archive* 119, 30-64.

Dunning, J. H. (1993). *Multinational Enterprises at the Global Economy*. England: Addison Wesley Publisher Ltd.

Ekeledo, I. & K. Sivakumar (1998). Foreign Market Entry Mode Choice of Service Firms: A Contingency Perspective. *Journal of the Academy of Marketing Science* 26:4, 274-292.

Ekeledo, I. & K. Sivakumar (2004). International market entry mode strategies of manufacturing firms and service firms: A resource-based perspective. *International Marketing Review* 21:1, 68-101.

Ekeledo I. (2000). *Choice of Foreign Market Entry Mode: A resource-Based Approach*. Chicago: University of Illinois.

Erramilli, M. K. (1991). The Experience Factor in Foreign Market Entry Behavior of Service Firms. *Journal of International Business Studies*, 22:3, 479-502.

Erramilli, M. K.; Agarwal, S. & C. S. Dev (2002). Choice between non-equity entry modes: An organizational capability perspective. *Journal of International Business Studies* 33:2, 223-242.

Erramilli, M. K. & D. E. D'Souza (1995). Uncertainty and foreign direct investment: the role of moderators". *International Marketing Review* 12:3, 47-60.

Erramilli, M. K. & C. P. Rao (1990). Choice of Foreign Market Entry Modes by Service Firms: Role of Market Knowledge. *Management International Review*30:3, 135-150.

Erramilli, M. K. & C. P. Rao (1993). Service firms' international entry-mode choice: A modified transaction-cost analysis approach. *Journal of marketing*, 57, 19-38

Fahy, J. (2000). The resource-based view of the firm: some stumbling-blocks on the road to understanding sustainable competitive advantage. *Journal of European Industrial Training* 24, 94-104.

Fink, A. (1995). *The Survey Handbook.* Survey Kit 1. Thousand Oaks etc.: Sage. 129 p. ISBN 0-8039-7388-8.

Gatignon, H. & E. Anderson (1988). The multinational corporation's degree of control over foreign subsidiaries: An empirical test of a transaction cost explanation. *Journal of Law, Economics & Organization* 4, 305–336.

Grant, R. M. (1991). The resource-based theory of competitive advantage: implications for strategy formulation. *California Management Review* 33:3, 114-136.

Henisz, W. J. & B. A. Zelner (2004). Explicating political hazards and safeguards: a transaction cost politics approach. *Industrial and Corporate Change*, 13: 6, 901-915.

Hennart, J. F. (1991). The transaction costs theory of joint ventures: an empirical study of Japanese subsidiaries in the United States. *Management science*, 37: 4, 483-497.

Hill, C. W. L., Hwang, P. & W. C. Kim (1990). An Eclectic Theory of the Choice of International Entry Mode. *Strategy Management Journal* 11, 117–128.

Johanson, J. & J. E. Vahlne (1990). The mechanism of internationalisation. *International Marketing Review*, 7: 4, 11-24.

Johanson, J. & J. E. Vahlne (1977). The Internationalization Process of the Firm - A Model of Knowledge Development and Increasing Foreign Market Commitments. *Journal of International Business Studies*, 8:1, 23-32.

Keppel, G. (1991). *Design and analysis: a researchers handbook.* 3rd ed. Englewood Cliffs, New Jersey: Prentice Hall.

Kim, W. C. & P. Hwang (1992). Global Strategy and Multinationals' Entry Mode Choice. *Journal of International Business Studies* 23:1, 29-53.

Koch, A. J (2001). Factors influencing market and entry mode selection:developing the MEMS model. *Marketing Intelligence & Planning* 19:5, 351-361.

Kogut, B. & U. Zander (1993). Knowledge of the firm and the evolutionary theory of the multinational corporation. *Journal of International Business Studies* 24, 625-645.

Kontkanen, M. (2006). Operation mode choice and efficiency in the context of perceived uncertainty: Case of Finnish firms in Asia. *Acta Wasaensia* No. 165, 262 p.

Lev, B. (2001). *Intangibles: Management, Measurement, and Reporting*. Washington, DC: Brookings Institution Press.

Litwin, M. S. (1995). *How to Measure Survey Reliability and Validity.* Survey Kit 7. Thousand Oaks etc.: Sage.

Luostarinen, R. & L. Welch (1990). *International Business operation*. Helsinki: Kyriiri Oy.

Madhok, A. (1997). Cost, Value, and Foreign Market Entry Mode: The Transaction and the Firm. *Strategic Management Journal* 18, 39-61.

Mahoney, J. T. & J. R. Pandian. (1992). The resource-based view within the conversation of strategic man-agement.. *Strategic Management Journal*, 13, 363-380.

Malhotra, N.K. & F. B. Birks (1999). *Marketing Research: An Applied Approach.* 3rd Edition. Upper Saddle River N.J. (US). 763p. ISBN 0-273-65744-5.

Maylor, H. & K. Blackmon (2005). *Researching Business and Management.* New York: Palgrave Macmillan.

Mc Daniel, C. & R. Gates (2005). *Marketing research*. 6th Edition. Hoboken, NJ (US): John Wiley & Sons Inc. 617p. ISBN 0-471-65765-4.

Menguc, B. & S. Auh (2006). Creating a Firm-Level Dynamic Capability through Capitalizing on Market Orientation and Innovativeness. *Journal of the Academy of Marketing Science* 34:1, 63-73.

Oviatt, B.; Shrader, R. & P. McDougall (2000). How new ventures exploit trade-offs among international risk factors: Lessons for the accelerated internationalization of the 21st Century. *Academy of Management Journal* 43:6, 1227–1247.

Pallant, J. (2007). *SPSS survival manual: A step by step guide to data analysis using SPSS for windows, 3rd ed*. Maidenhead: Open University Press.

Porter, M. E. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors*. New York, NY: Free Press.

Porter, M. E. (1998). *The Competitive Advantage of Nations (with a new foreword)*. New York: The Free Press.

Prahalad, C. K. & Y. Doz (1987). *The Multinational mission: balancing local demands and global vision*. NewYork: Free Press.

Prahalad, C. K & G. Hemel (1990). The Core Competence of the Corporation, *Harvard Business Review* 68, 79-91.

Quer, D.; Claver, E. & L. Rienda (2007). The impact of country risk and cultural distance on entry mode choice: An integrated approach. *Cross Cultural Management: An International Journal* 14:1, 74-87.

Rasheed, H. S. (2005). Foreign Entry Mode and Performance: The Moderating Effects of Environment*. *Journal of Small Business Management* 43:1, 41-54.

Root, F. R. (1987). *Foreign market entry strategies*. New York: AMACOM.

Root, F. R. (1988). Environmental risks and the bargaining power of multinational corporations. *International Trade Journal* 2, 111-124.

Root, F.R. (1994). *Entry Strategies for International Markets*. Toronto: Lexington Books, San Francisco, CA.

Rothaermel, F. T.; Kotha, S. & H. K. Steensma (2006). International Market Entry by U.S. Internet Firms: An Empirical Analysis of Country Risk, National Culture, and Market Size. *Journal of Management*, Vol. 32: 1, 56-82.

Sashi, C. M., & D. P. Karuppur (2002). Franchising in global markets: Towards a conceptual framework. *International Marketing Review*19:5, 499-524.

Saunders, M.; Lewis, P. & A. Thornhill (2003). *Research Methods for Business Students.* 3rd ed. Harlow etc.: Financial Times Prentice Hall. 504 pg. ISBN 0-273-65804-2.

Smith, S. (1995). World Class Competitiveness. *Managing Service Quality* 5:5, 36-42.

Sonfield, M. C. & R. N. Lussier (2008). The influence of family business size on management activities, styles and characteristics. *New England Journal of Entrepreneurship,* Vol. 11(2): 47-56.

Stopford, J. M. & L. T. Wells (1972). *Managing the Multinational Enterprise*, New York: Basic Books.

Tallman, S. & K. Fladmoe-Lindquist (2002), Internationalization, globalization, and capability based strategy, *California Management Review* 45:1, 116-35.

Taylor, C.T. (2000). The Impact of Host Country Government Policy on US Multinational Investment Decisions. *World Economy* 23, 635-648.

Taylor, C. R.; Zou, S. & G. E. Osland (2000). Foreign market entry strategies of Japanese MNCs. *International Marketing Review* 17, 146–163.

Taylor, C. R.; Zou, S. & G. E. Osland (2001). Selecting international modes of entry and expansion. *Marketing Intelligence & Planning* 19:3, 153-161.

Teece, D. J.; Pisano, G. & A. Shuen (1997). Dynamic capabilities and strategic management. *Strategic Management Journal* 18:7, 509-533.

Tomer, J. (1987). *Organizational Capital*. N.Y.: Praeger.

Villalonga, B. (2004). Intangible resources, Tobin's q, and sustainability of performance differences. *Journal of Economic Behavior & Organization* 54, 205–230.

Wade, J. (2005). Political Risk in Eastern Europe. *Risk Management* 52:3, 24-29.

Wernerfelt, B. (1984). A Resource-based View of the Firm. *Strategic Management Journal* 5:2,171-180.

Wernerfelt, B. (1989. From critical resources to corporate strategy. *Journal of General Management* 14:3. 4-12.

Whitelock, J. & D. Jobber (2004). An evaluation of external factors in the decision of UK industrial firms to enter a new non-domestic market: an exploratory study. *European Journal of Marketing* 38:11/12, 1437-1455.

Williamson , O. E. (1975). *Markets and Hierarchies*. New York: Free Press.

Williamson , O. E. (1981). "The Economics of Organization: The Transaction Cost Approach". *The American Journal of Sociology*, Vol. 87(3): 548-577.

Williamson, O.E. (1985). *The Economic Institutions of Capitalism*. New York: The Free Press.

Williamson, O.E. (1991). Comparative economic organization: The analysis of discrete structural alternatives. *Administrative Science Quarterly* 36:2, 269-296.

Wind, Y. & H. V. Perlmutter (1977). On the Identification of Frontier Issues in Multinational Marketing. *Columbia Journal of World Business* 12, 131-139.

APPENDIX 1. Questionnaire

Section A

Respondent related Background questions

1. Please provide information regarding the following questions.

   a. Your company's name……

   b. Your name……

   c. What is your position in the company?

      Please specify……

2. What is your company's main business sector

      Please specify ……..

3. When did your company begin international operation? Please specify the year……..

Section B

Host country entered and Entry /operation mode used.

4. If your firm has operations (e.g. exporting, licensing, foreign direct investments etc.) in several foreign countries, please choose only one country in which the firm is doing business at the moment. Choose a country, into which the firm has entered most recently, say within the past five year, and / or a country that you are most familiar with.

      Name of country……..

      Year of entry…….

   The following questions are then related to that specific entry.

5. Entry / Operation mode used at the time of entry (choose only one from the list provided below)

   ☐ Direct exporting involving the company-own subsidiary

- ☐ Direct exporting involving agent/distributor/wholesaler in foreign market
- ☐ Licensing
- ☐ Franchising
- ☐ Service contracts/Management contracts
- ☐ Turnkey project operation
- ☐ Contract manufacture
- ☐ Joint venture involving minority share
- ☐ Joint venture involving majority share
- ☐ Joint venture involving 50-50% share
- ☐ Wholly owned subsidiary (WOS)
- ☐ Others operation mode (please specify)……

6. How many employees were in your company at the time of entry?

   Please specify …….

7. What was your company's total worldwide sales turnover at the time of entry?

   Please specify……..

8. To answer to the following questions, **please kindly focus on the international entry you specified in section B.**

1. Political risk.

Please kindly evaluate the level of political risks at the time of entry by ticking the relevant box. Use the description about political risk situation provided in the bracket as a guide. Indicate your choice by choosing from the scale 1 to 5. 1 = not risky 5 = highly risky.

a. **Nationalization risk** (when the firm is taken over by the host country government)

1	2	3	4	5
☐	☐	☐	☐	☐

b. **Barrier to earning repatriation** (when there is restriction by host country government on sending the firm income back to home country)

1	2	3	4	5
☐	☐	☐	☐	☐

c. **Change of government policy or ideology** (e.g. monetary policy like high interest rate, high taxes etc)

1	2	3	4	5
☐	☐	☐	☐	☐

d. **Corruption** (office mismanagement, bribery both in public and private places/business).

1	2	3	4	5
☐	☐	☐	☐	☐

e. **Civil war and social unrest** (military conflict which arise from a disagreement, usually a quest radical change in society as a result of either cultural, social, religious, political or economic disputes, and which is resolved through the use of weapons; and rebellion, mass disobedient, ranging from non-violent to violent and organized attempts to destroy an established authority such as the government).

1	2	3	4	5
☐	☐	☐	☐	☐

2. Economic risk

Please kindly evaluate the level of Economic risks at the time of entry by ticking the relevant box. Use the description about economic risk situation provided in the bracket as a guide. Indicate your choice by choosing from the scale 1 to 5. 1 = not risky 5 = highly risky.

a. Commercial infrastructure risk (advertising media etc)

1	2	3	4	5
☐	☐	☐	☐	☐

b. Physical infrastructure risk (Road, Communication network, energy etc.)

1	2	3	4	5
☐	☐	☐	☐	☐

c. High Inflation

1	2	3	4	5
☐	☐	☐	☐	☐

d. Debt defaulting (inability of country to fulfill loan covenant by being unable or unwilling to repay the loan, also risk of inhabitants of a country not able to pay debt).

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

e. Demand fluctuation

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

f. High interest rate

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

g. Currency fluctuation

1 ☐ 2 ☐ 3 ☐ 4 ☐ 5 ☐

Section C

To answer to the following questions, **please kindly focus on the international entry you specified in section B.**

Question regarding operation activities based on firm resources characteristics

International experience

9. Please kindly evaluate your company's level of international experience at the time of entry the focused country from the statements below by ticking relevant box.

a. No international operation prior to entry ☐

b. Operations in European countries ☐

c. Operations in one continent outside Europe ☐

d. Operations in more than one continent outside Europe ☐

e. Operations in every continent ☐

10. Please evaluate what is unique about your firm's proprietary know-how and tacit know-how using the following criteria listed below. To what extent do you agree with the statements at the time of entry? 1 = strongly disagree and 5 = strongly agree.

a. Difficult to duplicate by our competitors by studying the blueprint (e.g. unique patent, trademark, trade secret, brand name etc.).

1	2	3	4	5
☐	☐	☐	☐	☐

b. Our firm's proprietary know-how and tacit know-how is difficult to imitate and they are particular to our firm.

1	2	3	4	5
☐	☐	☐	☐	☐

c. Difficulty in transferring our tacit and proprietary know-how such as trade secret, production process, marketing know-how etc.

1	2	3	4	5
☐	☐	☐	☐	☐

d. High level of complexity of our production processes.

1	2	3	4	5
☐	☐	☐	☐	☐

e. Difficulty in training new production and /customer contact personnel.

1	2	3	4	5
☐	☐	☐	☐	☐

f. Difficulty in measuring our tacit know how and proprietary technology because of the intangibility nature.

1	2	3	4	5
☐	☐	☐	☐	☐

g. Our firm's proprietary know-how and tacit know-how are unique because the cost of removing such resource is high once it is installed on partner.

1	2	3	4	5
☐	☐	☐	☐	☐

APPENDIX 2. Survey cover letter

"IMPACT OF FIRM RESOURCES ON INTERNATIONAL ENTRY MODE STRATEGY: EFFECT OF HOST COUNTRY SPECIFIC FACTORS"

Dear respondent,

I write to invite you to participate in this survey for my research project aimed at determining the "impact of firm resources on international entry mode strategy and effect of host country specific risk factors", while targeting companies duly registered in Finland.

This study is being conducted by Uhomhoabhi Fredrick, Master's Degree student in International Business at the University of Vaasa, Finland; and the results of the survey will be evaluated and analyzed in the empirical part of the final Master's Thesis project.

I would need your help filling in the following questionnaire:
http://www.codewit.info/survey/form/form.html

The potential benefits to your company from participating in the study reside on the identification of the key firm's resources necessary for company's international expansions. The results of the research may also be helpful to increase your understanding of how to effectively select your foreign market entry modes based on different strategic decisions, especially how certain country risks situations could affect or moderate the potential deployment of firm resources during international expansion.

Please take some time to fill up the questionnaire. The estimated time for completing the survey is between 8 and 12 minutes, and your participation in this study is completely voluntary. However, you participation will ease the accomplishment of this task that is necessary for my graduation.

The information about your company was collected from Helsinki School of Economics (HSE) library, from the database containing information about companies registered in Finland. Your response to this survey will be completely held confidential.

Please provide answer to all questions, at least your best estimate.

If you have any questions regarding the survey and its content, please do not hesitate to contact the author.

To begin the survey, please click the following link:

http://www.codewit.info/survey/form/form.html

Thanks in anticipation of your co-operation.

Sincerely,

Uhomhoabhi Fredrick.

Name of researcher: Uhomhoabhi, Fredrick
Telephone number: 0440822723
Email address: fredrick.uhomhoabhi@uwasa.fi
University of Vaasa
Wolffintie 34
FI-65101 VAASA, Finland

APPENDIX 3. Reliability test

1. Scale: Firm's unique resources

Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded[a]	0	.0
	Total	25	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.737	.741	7

Item Statistics			
	Mean	Std. Deviation	N
Our firm's proprietary know-how and tacit know-how difficulty in duplication by our competitors by studying the blueprint (e.g. unique patent, trademark, trade secret, brand name etc.)	2.36	1.287	25
Our firm's proprietary know-how and tacit know-how is difficult to imitate and they are particular to our firm	2.56	1.121	25
Difficulty in transferring our tacit and proprietary know-how such as trade secret, production process, marketing know-how etc	2.52	1.159	25
High level of complexity of our production processes	2.48	.963	25
Difficulty in training new production and /customer contact personnel	2.36	1.036	25
Difficulty in measuring our tacit know how and proprietary technology because of the intangibility nature	2.52	.918	25
Our firm's proprietary know-how and tacit know-how are unique because the cost of removing such resource is high once it is installed on partner	2.44	1.121	25

Inter-Item Correlation Matrix

	Our firm's proprietary know-how and tacit know-how difficulty in duplication by our competitors by studying the blueprint (e.g. unique patent, trademark, trade secret, brand name etc.)	Our firm's proprietary know-how and tacit know-how is difficult to imitate and they are particular to our firm	Difficulty in transferring our tacit and proprietary know-how such as trade secret, production process, marketing know-how etc	High level of complexity of our production processes	Difficulty in training new production and /customer contact personnel	Difficulty in measuring our tacit know how and proprietary technology because of the intangibility nature	Our firm's proprietary know-how and tacit know-how are unique because the cost of removing such resource is high once it is installed on partner
Our firm's proprietary know-how and tacit know-how difficulty in duplication by our competitors by studying the blueprint (e.g. unique patent, trademark, trade secret, brand name etc.)	1.000	.201	.204	-.044	.274	-.024	.377
Our firm's proprietary know-how and tacit know-how is difficult to imitate and they are particular to our firm	.201	1.000	.600	.706	.321	-.254	.293
Difficulty in transferring our tacit and proprietary know-how such as trade secret, production process, marketing know-how etc	.204	.600	1.000	.626	.289	-.069	.266
High level of complexity of our production processes	-.044	.706	.626	1.000	.488	.271	.453
Difficulty in training new production and /customer contact personnel	.274	.321	.289	.488	1.000	.321	.468
Difficulty in measuring our tacit know how and proprietary technology because of the intangibility nature	-.024	-.254	-.069	.271	.321	1.000	.335
Our firm's proprietary know-how and tacit know-how are unique because the cost of removing such resource is high once it is installed on partner	.377	.293	.266	.453	.468	.335	1.000

2. Scale: Political risk

Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded[a]	0	.0
	Total	25	100.0

a. Listwise deletion based on all variables in the procedure.

Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded[a]	0	.0
	Total	25	100.0

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.852	.863	5

Item Statistics

	Mean	Std. Deviation	N
Natinalization risk	1.88	1.166	25
Barrier to earning repatriation	1.92	1.115	25
Change of government policy or ideology	2.28	1.400	25
Corruption	2.60	1.258	25
Civil war and social unrest	1.48	.714	25

Inter-Item Correlation Matrix

	Nationalization risk	Barrier to earning repatriation	Change of government policy or ideology	Corruption	Civil war and social unrest
Nationalization risk	1.000	.505	.634	.477	.422
Barrier to earning repatriation	.505	1.000	.682	.600	.678
Change of government policy or ideology	.634	.682	1.000	.516	.568
Corruption	.477	.600	.516	1.000	.501
Civil war and social unrest	.422	.678	.568	.501	1.000

3. Scale: Economic risk

Case Processing Summary

		N	%
Cases	Valid	25	100.0
	Excluded[a]	0	.0
	Total	25	100.0

a. Listwise deletion based on all variables in the procedure.

Reliability Statistics

Cronbach's Alpha	Cronbach's Alpha Based on Standardized Items	N of Items
.881	.881	7

Item Statistics

	Mean	Std. Deviation	N
Commercial infrastructure risk	2.04	1.060	25
Physical infrastructure risk	2.20	1.080	25
High Inflation	2.36	1.350	25
Demand fluctuation	1.96	1.306	25
Debt defaulting	2.44	1.227	25
High interest rate	3.04	1.172	25
Currency fluctuation	2.28	1.061	25

Inter-Item Correlation Matrix

	Commercial infrastructure risk	Physical infrastructure risk	High Inflation	Demand fluctuation	Debt defaulting	High interest rate	Currency fluctuation
Commercial infrastructure risk	1.000	.539	.484	.754	.658	.368	.545
Physical infrastructure risk	.539	1.000	.406	.508	.559	.224	.494
High Inflation	.484	.406	1.000	.693	.479	.517	.683
Demand fluctuation	.754	.508	.693	1.000	.661	.464	.609
Debt defaulting	.658	.559	.479	.661	1.000	.451	.285
High interest rate	.368	.224	.517	.464	.451	1.000	.426
Currency fluctuation	.545	.494	.683	.609	.285	.426	1.000

APPENDIX 4. Host country by entry mode

Host Countries * Entry Mode Choice Crosstabulation

			Entry Mode Choice						
			Wholly own sub. (WOS)	Majority Joint venture	Licensing	Direct exporting (Agents, Dist. and Whosaller)	Direct exporting (WOS)	Others	Total
Host Countries	China	Count	3	0	1	0	0	0	4
		% within Host Countries	75.0%	.0%	25.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	18.8%	.0%	100.0%	.0%	.0%	.0%	16.0%
	Estonia	Count	0	0	0	1	1	0	2
		% within Host Countries	.0%	.0%	.0%	50.0%	50.0%	.0%	100.0%
		% within Entry Mode Choice	.0%	.0%	.0%	50.0%	33.3%	.0%	8.0%
	India	Count	1	0	0	0	0	0	1
		% within Host Countries	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	6.2%	.0%	.0%	.0%	.0%	.0%	4.0%
	Latvia	Count	1	0	0	0	0	0	1
		% within Host Countries	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	6.2%	.0%	.0%	.0%	.0%	.0%	4.0%
	Lithuania	Count	1	0	0	0	0	0	1
		% within Host Countries	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	6.2%	.0%	.0%	.0%	.0%	.0%	4.0%
	Norway	Count	2	0	0	0	0	0	2
		% within Host Countries	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	12.5%	.0%	.0%	.0%	.0%	.0%	8.0%
	Poland	Count	1	1	0	0	0	0	2
		% within Host Countries	50.0%	50.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	6.2%	100.0%	.0%	.0%	.0%	.0%	8.0%
	Russia	Count	1	0	0	1	0	1	3
		% within Host Countries	33.3%	.0%	.0%	33.3%	.0%	33.3%	100.0%
		% within Entry Mode Choice	6.2%	.0%	.0%	50.0%	.0%	50.0%	12.0%
	Singapore	Count	1	0	0	0	0	0	1
		% within Host Countries	100.0%	.0%	.0%	.0%	.0%	.0%	100.0%
		% within Entry Mode Choice	6.2%	.0%	.0%	.0%	.0%	.0%	4.0%
	South Korea	Count	0	0	0	0	1	1	2
		% within Host Countries	.0%	.0%	.0%	.0%	50.0%	50.0%	100.0%
		% within Entry Mode Choice	.0%	.0%	.0%	.0%	33.3%	50.0%	8.0%
	Sweden	Count	5	0	0	0	1	0	6
		% within Host Countries	83.3%	.0%	.0%	.0%	16.7%	.0%	100.0%
		% within Entry Mode Choice	31.2%	.0%	.0%	.0%	33.3%	.0%	24.0%
	Total	Count	16	1	1	2	3	2	25
		% within Host Countries	64.0%	4.0%	4.0%	8.0%	12.0%	8.0%	100.0%
		% within Entry Mode Choice	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%