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**ENTRY MODE DECISION MAKING PROCESS**

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**ABSTRACT:**

Decision making is the important process in formulating the entry mode strategies. The main objective of this study is to explore the entry mode decision making process a firm entering in to new market. This study explains the entry mode decision making of the case company.

In the theoretical part of this study firstly the strategic decision making is discussed. The next part of the theoretical part explains the various modes in strategic decision making. Furthermore the theoretical part discusses about the decision making in the context of entry mode and as well as in the context of entry mode choice approaches. The later part of the theory explores the stages that are involved in the entry mode decision making process. At final the theoretical part explains the importance of emerging markets.

The empirical part of the study is done through the face to face interview with the case company. Moreover, the case company's annual reports, publications and the internet pages were also used in the empirical part of the study. The empirical results of the study explains three stages in the entry decision making process of the case company which are market and need identification, entry mode data collection and decision making stage. It is revealed from the results that the case company's decision making process is based on avoidance mode.

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**KEYWORDS:** Entry modes, Decision making, Strategy, Internationalization, Emerging markets.



## 1. INTRODUCTION

This chapter presents overview about the background of the research study, followed by objectives of the study. Moreover, it also gives an outline about the structure of the study.

### 1.1. Study background

Firms are fascinated towards entering the new market, and especially emerging markets have gained lots of attentions towards the organizations due to the market size and growth opportunities. The organizations use different strategies and methods to enter in to different markets. The market entry mode strategies of international firms differ greatly from country to country. The strategy used in one market may not be viable in another market due to the complexities of markets nature. Thus Hooley, Loveridge and Wilson (1998:20) concluded by saying that “the firm’s internationalization decisions are made in a holistic way, incorporating products, markets and entry modes”.

The entry mode which is suitable for a firm is solely depends on the firm’s involvement, requirements and capability and the different perceptions involved between the home and host countries. But at the end of the day it is the firm’s future which is dependent on these entry modes. The erroneous decision of a firm in choosing the right entry can lead firm’s success in the new market questionable.

Morschett, Klein b and Swoboda (2010:60) stated that “the choice of a mode of market entry is a critical component of the internationalization strategy”. Market entry mode has a significant impact on international operations of a firm as the nature of the firm’s operations in the country market depends on its choice of mode of entry Kumar and Subramaniam (1997:53). When a firm chooses a particular mode it is very difficult for the firm to change its mode as it involves long term orientation and resource commitments. According to Johnson and Tellis (2008: 2) “the mode of entry also affects how a firm faces the challenges of entering a new country and deploying new skills to market its product successfully”.

In the recent years emerging markets have gained lot of importance among the organizations. The organizations are keen on entering these emerging markets using the right entry as the market potential is high. Emerging markets are drawing attention of the business organizations with their high potentiality, feasibility or rather low capital investment, comparatively above average profit returns, diversification opportunities, low cost labor, flexible currency exchange regulations, stable and industry friendly political setup, easy access to external markets, non- interfering bureaucracy, readily available local equity for joint ventures and important of all long term sustainability and growth. These are driving forces behind the internationalization of a firm. According to them the process of entering in to an emerging market and its expansion include many aspects, such as choice of entry mode, market conditions, availability of human resources, and selecting an ideal location for operation etc.

Though there is a huge interest remains among the organizations to enter in to the emerging markets the success of the firms in the emerging markets hugely depends on their market entry strategy. Wind and Perlmutter (1977:131) argued that international operations are greatly influenced by the choice of entry mode

and this can be viewed as a frontier issue in international business. A thorough analysis is required about the different types of decision making processes to be followed in this regard. Each approach has its own importance with variety of the factors influencing each decision. The decision making process leads to find a suitable entry mode which can help the firm to achieve success globally and to attain a long-term relation with the host country.

Firms decision making to enter in to a new market has various stages which are unavoidable and besides it is also time consuming process for the firms to decide which market to enter and what kind of strategies has to be adopted. Mc Naughton (2001:15) stated that "the time taken by the firms to make a decision to enter in to a market can be calculated from the stage where the firm realises the need to change its current position and decides to enter into a foreign market to the suitable entry mode chosen finally". The decision making to enter in to market also involves various challenges. Aharoni and Tihanyi (2007:520) accept this fact by stating that "decision making in the international business environment is often the most challenging aspect of manager's job". Management decision making is an utmost important aspect in deciding a correct entry mode.

When managers of firms have unlimited time and monetary resources to gather the required information to enter in to a new market they make an optimal, rational decision. Thus Root (1994:43) indicated clearly that 'entry mode choice is a widespread preparation setting forward the objectives, goals, resources, and policies'. These will direct a company's future in international business operations over a long period to attain success with sustainable development in the global market. These can encourage or discourage a particular entry mode.

Entry mode choice determines the operational costs and managerial control over the ventures (Shi, Ho and Siu 2001:38). A mode inappropriately chosen will lead to high transaction costs and low transaction benefits, conditions under which a venture's performance will suffer (Chen & Hu 2002:198). Entry modes are the channels through which internationalization takes place and are critical for a successful internalisation. It is quite essential to plan them carefully before entry as once decided they are difficult to change than other aspects of marketing mix (Mc Naughton 2001:13).

Because of the importance of entry mode choice there is a huge number of studies which explained entry mode related issues. For example Datta, Hermann and Rasheed (2002:89) tried to identify the antecedents and consequences of entry mode choice. They tried to explain the relationship between the antecedent factors and the choice of entry mode. For example Slangen and Tulder (2009) have studied how the external factors such as political, cultural factors have an impact on entry mode choice.

Zhao and Olsen (1997) focused their study on the antecedent factors influencing entry mode choice. Their study was concentrating more on the relationship between the antecedent factors and the entry mode choice. Zhao and Olsen (1997) used multiple case study with five firms categorised according to their entry mode choices. In the similar vein Morschett, Klein and Swoboda (2010) in their theoretical study examined the external antecedents of the choice of entry mode by meta-analysing data from 72 independent primary studies. Their prior research was to concentrate on the external antecedent factors of entry mode choice. They tried to find how different external factors influence the firm to establish a wholly owned subsidiary. There are limited number of studies which focused on types and elements of entry mode decision making process.

Mc Naughton (2001), Root (1994), Kumar and Subramaniam (1997), as well Pan and Tse (2000) studied decision making process. They argued that entry mode choice consists of many stages and can be considered as multi stage decision making process. Different models have got different perceptions towards the choice of entry mode. All these models will help us in exploring the decision making process.

This research is focused on to find out a firm's entry mode decision making process of a firm in a new market with special emphasize on emerging markets. However, even though there exist a lot of entry mode choice studies, there are a limited number of studies which actually explore the entry mode decision making process of a firm. The mode of entry decision is usually a very significant decision "because it involves a large commitment from the firm and it affects all the future strategic decisions of the firm not only in that host country but also in other areas" Kumar and Subramaniam (1997:63). In this background, this study aims to find out the entry mode decision making process of the firms in a new market with special emphasize on emerging markets.

## 1.2. Research purpose, objectives and delimitations

The purpose of this study is to explore the entry mode decision making process of a firm in a new market with special emphasize on emerging market. The study is to make an in-depth analysis on the entry mode decision making process of a firm entering into a new market. This study will further help to increase the understanding of the entry mode decision making process. In order to find out the main purpose of the research, the following sub objectives were set.

(1) To find out the types of strategic decision processes.

In the present management research strategic decision making has emerged as one of the most essential issues. Strategic decision making process is one of the most important topics of management literature. Here the study tries to identify some important processes of strategic decision making to increase understanding of the strategic decision making. Strategic decision has a greater impact on a firm's success in the foreign market as it involves several aspects such as formulations, identification of problems, generating alternatives and selection etc. They are the fundamental decisions taken to outline basis of an organization. According to Mintzberg, Raisinghani and Theoret (1976:246) "strategic decisions are important in terms of the action taken, the resources committed, or the precedents set". When an organization plan to enter in to a foreign market it goes through various stages and consider different factors that makes their decision successful. The stages in decision making may also greatly differ according to the factors such as political, cultural, economical, geographical factors and various other factors. In this context this research question is also intend to find out the stages that are involved in entry mode decision making process.

(2) To identify the approaches in decision making process

This study is to identify the approaches and the different elements of decision criteria in the entry mode decision making process. This objective would focus on to find out what kinds of approaches are considered by the organizations during the entry mode decision making process. This study would thus explain how a firm chooses a channel to enter into a foreign market following different stages. Some firms may take longer time to decide and some may put least efforts in deciding. Longer process is a rational one with evaluation of

alternative entry modes and other aspects which can have a decisive influence on the choice of entry mode. Here this study gives a view how a firm opt for different approaches when enters into a foreign market and how a firm should decide on the right entry mode for a desired target market. Here we try to identify how important is decision criteria and how different elements of decision criteria helps in choosing the right entry mode.

(3) To find out the stages in entry mode decision making process

This objective would be focused on to find out various stages which are involved in entry mode decision making process. The stages in entry mode decision making process may involve various aspects of strategic decision making which may provide ample information to full fill the purpose of this study, exploring the entry mode decision making process based on the case study. This study is to explore the entry mode decision making of a Finnish company entering into an emerging market.

This research study emphasizes on to find out the entry mode decision making process of an organization in entering in a new market with special emphasize on the emerging markets. The empirical part of the study would be based on single case study method which will examine the case of a firm that has entered in to a new market. This case study cannot represent all the organizations and all emerging markets. Facts, issues and environment may differ widely according to the organization and the geographical location of the market. Generalization may be possible by applying this case study to various organizations those have entered in particular emerging market.

### 1.3. Structure of the research

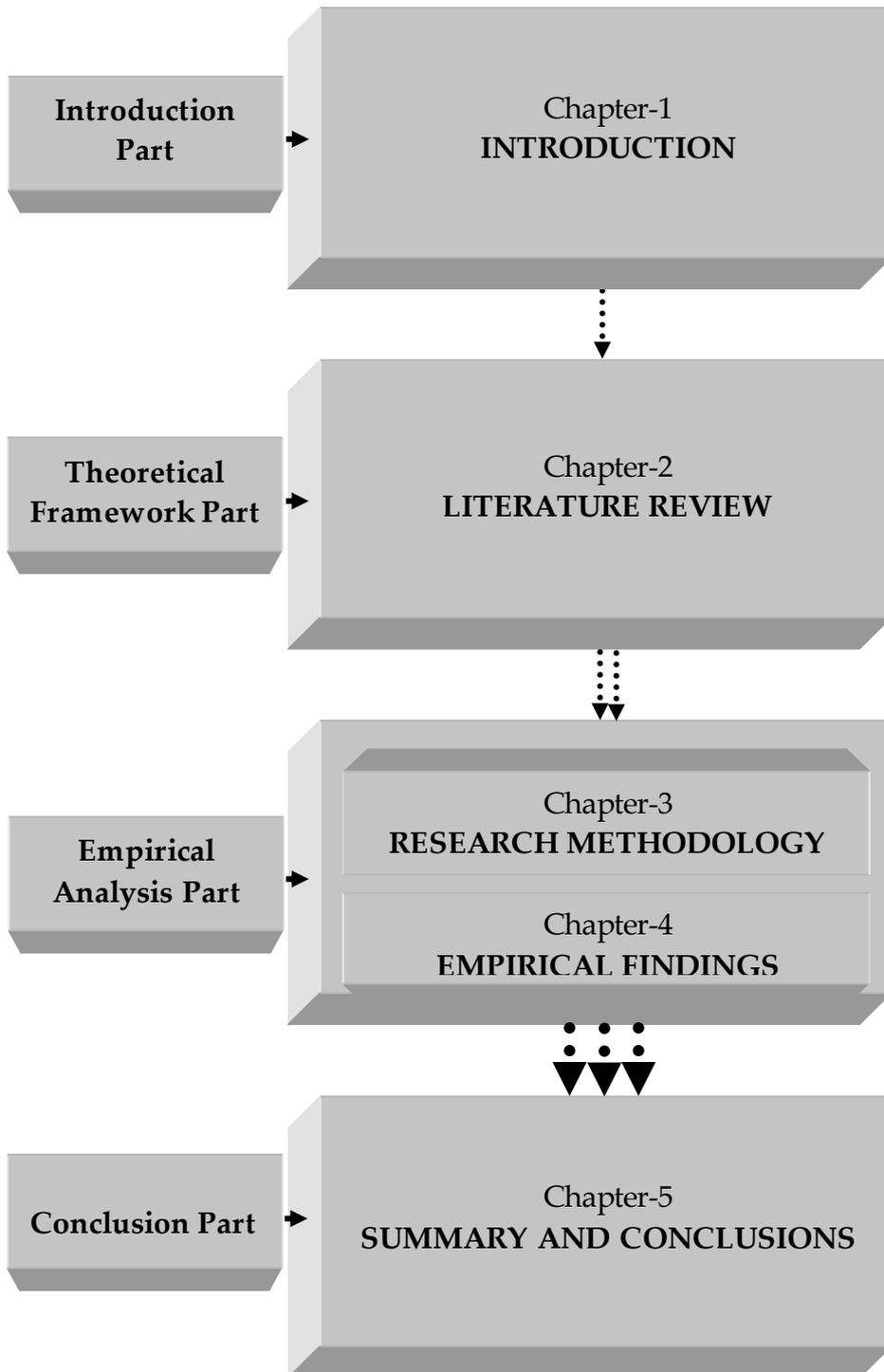
The research has been structured as follows. This first chapter states with introduction which is followed by the background of the research which explains the context of the research. This chapter explains the main objective of the research which includes three sub objectives to formulate the main research objective.

Chapter 2 contributes to the literature review of the research. This chapter starts with introducing the decision strategies, strategic decision making process, decision making in entry mode context, decision criteria for entry mode choice approaches and exploration of market entry decision making stages. This chapter also explains the importance of emerging markets.

Chapter 3 describes the methodology of the study which also includes, research strategy, research design, choice of case companies, reliability and validity of the data.

Chapter 4 explains the empirical results of the study. It illustrates the decision making process of the case companies which has been chosen to analyze. This chapter interconnects the theoretical framework and the empirical results to find out the main objectives of the study.

Chapter 5 presents the conclusions and implication of the research study. Overall conclusion derived from the study is also described in this chapter. Besides, this chapter gives suggestions for further research.

**Figure 1.** Structure of the research

## 2. ENTRY MODE DECISION MAKING

This chapter has a special emphasize on decision making process of entry mode strategies of a firm in order to position decision making as a central part of this study. It also discusses types of decision making process and the models which are adopted in the decision making process proposed by various authors.

### 2.1. Strategic decision making

Strategic decision making is decisive for the long-term success of an organization in the foreign market. The term strategy can be defined as 'deliberate conscious set of guidelines that determines decisions into the future' (Mintzberg 1978:935). Whereas, the term decision making can be defined as the purposeful selection of a strategy by analyzing the available alternatives to achieve the objective of the organization. Furthermore, strategic decision making can be defined as an intellectual process in analyzing the pros and cons among the alternatives that are relevant to each other in order to achieve the objective of the firm. Mintzberg et al. (1976:246) defines strategic decision making as the process by which top management makes its most fundamental decisions. Strategic decisions are important, in terms of the action taken, the resources committed or the precedents set.

Strategic decision making involves comparison between the alternatives and valuation of their respective outcomes which is done by the top management of the organizations. According to Johnson, Scholes and Wittington (2008:33) strategic decisions are often complex in nature for at least three reasons, first,

they have high level of uncertainty, second they are likely to demand an integrated approach to manage the organization and third it involves major change in the organization.

Efficiency and effectiveness of an organization is greatly influenced by their strategic decisions. In fact Roberto (2004:626) replicates that “an efficient decision making process and effective execution is required for the successful performance of a firm”. Strategic decision making contributes to the long term determination of a firm and helps the firm to achieve competitive advantage through the arrangement of resources with in a changing business environment in order to satisfy the expectations of their stake holders. Strategic decision making, not as a prelude to organizational change but as an on-going change process, in which the classic phases of formulation and implementation are inextricably bound and require constant attention’ (Hendry 2000:973).

Deciding the right strategy to enter in to a new market is very crucial for the organizations to achieve success in International business environment. A firm’s long term orientation in the foreign market depends upon their entry mode selection strategies. The idea of strategy selection is higher level decision problem which involves consideration of cost and benefits provide an appealing framework for considering task efforts and contingent processing behavior” (Rangyai 2007:14). The decision strategy also consists of various procedures that has to be considered which the amounts of information are gathered the person who makes the strategy and characteristics of the decision task.

The choice of strategy greatly dependent on the decision maker and the nature of the decision task, further it can be seen as the result of cost benefit approach to strategy selection. Since the strategy selection involves much information it

also plays as greater role in selecting a right strategy by the decision maker to enter in to a new market. When the decision maker has accurate information regarding the market which they plan to enter they select a better strategy but if the information about the markets are not accurate it leads select a poor strategy. The decision maker will choose for a strategy that involves much analysis so that more information would be obtained from this process.

The nature or the characteristics of the managers such as ability, knowledge and motivation may also influence the strategy selection. Moreover, these characteristics of managers may also affect the information processing that is likely to be performed during the mode of entry decision. Depending on the amount of information the manager plans to acquire and use, his decision strategy will vary (Rangyai 2007:15). The grater the knowledge, ability and motivation possessed by decision maker help to choose a greater strategy.

## 2.2. Modes in strategic decision making process

As the number of processes which are contrary in their own ways, some of the researchers tried to bring out the dominant paradigms of the strategic decision making processes. The categorisation strategic decision making processes are different in their own ways. Mintzberg et al. (1976) identified 25 decision making processes which according to Cowan (1986:764) some of them are inspired wholly by problem and some at least in part by problems. Lyles and Thomas (1988:134) identified there are five key modes in strategic decision process. They categorised them as rational, avoidance, adaptive, political and decisive modes. Whereas Hickson (1987:185) identified three basic modes of decision making: dual rationality, incrementalism and garbage can model. According to Das and Teng (1999:758), Eisenhardt, Zbaracki and Mark (1992:17)

studied three foremost hypothesis of strategic decision making processes. They are rationality and bounded rationality, politics and power, and garbage can. Hence the modes suggested by Hickson (1987), Eisenhardt, Zbaracki and Mark (1992) and Lyles and Thomas (1988) are similar to each other the major methods in decision making process are discussed in this chapter.

The five modes such as rational mode, avoidance mode, logical incrementalist mode, garbage can mode and political mode are explained in detail in this chapter. The reason for discussing the above mentioned modes in detail is that these modes have strategic importance in various levels strategic decision making process. Moreover, these modes explains the various aspects of decision making processes such as avoiding the risk and uncertainties, considering the alternatives in the decision making, characteristics of the decision makers in the process, analysing the alternatives, step by step decision making and the problems associated with the decision making. Therefore these modes have to be discussed elaborately to explain the approaches of decision making process in a best manner.

#### Rational mode

When evaluate various approaches in strategic decision making process rational mode is supposed to be the standard process as in this mode the decisions are emerged from a process of conscious choice. The objectives of rational mode are clear and unambiguous. In the rational mode complexity and time pressure is low. Lyles and Thomas (1988:134) stated that 'the rational model corresponds to the classical economic view of decision making'. When considering rational mode it is important to evaluate the alternatives systematically. Schwenk and Thomas (1983:467) also points out that in order to improve the quality outcome of decisions it is best to analyse the alternatives based on different assumptions.

According to Simon (1955:100) “the objects of rational calculation are (1) the set of alternatives open to choice, (2) the relationships that determine the pay-offs ("satisfactions," "goal attainment") as a function of the alternative that is chosen, and (3) the preference-orderings among pay-offs”. All the authors have similar opinion about rational mode which can further be concluded from Das and Teng (1999:763) as they stated rational decision making is a formal process which quantifies and specifies goals and alternatives to choose an optimal choice. Moreover, Das and Teng (1999:772) predicted that decision makers in the rational mode move with a confidence that they can handle the risks with a perfect control over the process.

Also there are other opinions about rational decision making process from Fredrickson (1984:445) as he stated that “comprehensiveness is what decision makers in the rational mode endeavour to achieve”. According to Hickson’s (1987:185) dual rationality mode can be viewed as an integration of the rational mode and the political mode. Dual rationality mode posits that decision making is a process of handling both problems and politics.

#### Avoidance mode

The avoidance mode is one of the mode in strategic decision making process which is based on Cyert and March’s (1992:134) “organisation seeks to avoid uncertainty by following regular procedures and a policy of reacting to feedback rather than forecasting the environment”. In the avoidance mode decision making process lead resistance to change and also complexity and time pressure is low in this mode. According to avoidance mode firms tries to avoid risk and uncertainty in their decisions. Firms try to avoid uncertainties as part of standard industrial practice and negotiated risk. Maintaining status quo in the decision making process is the objective of this mode. Lyles and Thomas

(1988:136) explains that in order to maintain the status quo, recognition of problem is important to maintain the status quo as according to them avoidance model is based on the assumption that status quo need to be maintained.

The purpose of avoidance mode is to keep the situation impervious and the process of developing alternative decision loses its grounds which makes the decision makers to be limited. Moreover, in the avoidance mode the decision makers or the managers are less exposed in developing the creative ideas. Besides all the above mentioned facts this model also emphasize that the problem should be recognized well in advance to avoid the risk and uncertainty in decision making. Recognition of the problem has greater impact on firm's performance. In fact Lyles and Thomas (1988:136-137) admits that avoiding the recognition of problem may cause positive as well negative impacts on firm's performance. In uncertain and high ambiguity situations avoiding problems and avoiding resource consumption are beneficial but sometimes it may impact firm's strategic capabilities and survival.

#### Logical incrementalist mode

Logical incrementalist mode is one of the important mode in strategic decision making process in which firms tends adopt incremental decision making. Logical incrementalism is the way to achieve the goal of an organization by making decisions incrementally in step by step decisions. When the decisions are taken incrementally it helps the organizations to resolve the conflicts among the participants of the decision makers and as well it also help reduces the risk by gaining proper experience during the decision making process. Logical incrementalism offers flexibility at the same time it takes very long time to complete the task which also leads to unproductive decision. In logical incrementalist mode complexity is high and time pressure is low.

Decision making is processed within limited boundaries which proceed through incrementally providing minimum satisfaction in a way that it does not need to be reliable or logical. There may be reasons behind choosing incremental decisions (Butler, Astley, Hickson, Mallory & Wilson 1979:10). The firms may choose incrementalism because it offers liveness and also creates learning environment for the organizations which will help them to avoid risk and uncertainty during their next step. Hrebiniak, Lawrence and Joyce (1985:343) suggest lack of resources may restrict firms to be in rational boundaries and firm's choices may be incremental. There is also a positive side in choosing this mode. Das and Teng (1999:767) emphasize that firms can gather more information and can have feedback from their past actions by moving incrementally.

#### Garbage can mode

Garbage can mode of decision making is the process of decision making which is done by systemic anarchic perspective. In this mode decision making is accidental and is the product of problems and solutions which are associated randomly. In garbage can mode both complexity and time pressure is high. Garbage can mode was developed by Cohen, March and Olsen (1972:3) which according to them is a kind of decision which is made by analysing relatively independent streams within the firm. Timing and chance are the accountable factors in this mode (Das and Teng 1999:771). In similar way Cohen et al. (1972:16) suggested "the garbage can process is one in which problems, solutions, and participants move from one choice opportunity to another in such a way that the nature of the choice, the time it takes, and the problems it solves all depend on a relatively complicated intermeshing of elements".

While it is difficult to explain the success of these "organizational anarchies" in a competitive market, this model has been found in different organizations with decisions being made by a process that transcends technological rationality. Normally it involves a trial and error process where manager is in and out of the decisions and he often changes his mind. It is difficult to say the success ratio of firms in this mode as it does not resolve the problems well. The garbage can model is a first step toward seeing the systematic interrelatedness of organizational phenomena which are familiar, even common, but which have previously been regarded as isolated and pathological (Cohen et al. 1972:16).

According to Cohen et al. (1972:3) in garbage can model four basic variables are considered each is function of time. (a) A stream of choices- fixed number of choices are assumed and each choice is characterised by entry time and decision structure, (b) a stream of problems-some number of problems are assumed and each problem is characterised by an entry time, an energy requirement and an access structure, (c) a rate of flow of solutions- the verbal theory assumes stream of solutions and a matching of specific solutions with specific problems and choices, and (d) stream of energy from participants- each participant is characterized by a time series of energy available for organizational decision making.

#### Political mode

Political mode is also one of the important modes in strategic decision making process. In the political mode group of organizational members fight for their decision to be recognized or accepted among the group of other decision making people. In political mode time pressure and complexity are higher where the powerful participant achieve success during the decision making process. According to Eisenhardt, Zbaracki and Mark (1992:23) "people are

individually rational but not collectively so. Inevitably, strategic decision making process becomes a process of power struggle and the most powerful people win the game". In the political mode people it is hard to foresee which group's interest will prevail. Moreover, in the political mode as the people try for their interest to be perceived there may also be conflict arise among the people or group of people. The alternative available for decision making is also small in number with inadequate consequences.

According to Das and Teng (1999:769) people or a group who involve in political mode of decision making tends to be politically biased and the complete information is never available. Each group protects and maximizes its own interests through political activities. The political process is characterized by a determination to realize ones best interest, no matter what route one may have to take, hence, besides the target itself there is hardly anything static in the political process. Actors in political process are required to be skillful in making compromises, horse-trading, shifting positions and repackaging proposals. Das and Teng (1999:760) further add that the decision makers go beyond both the majority view and minority view. Applying this finding to the political mode of strategic decision making it seems that opposing views offered by various groups activate decision makers to think creatively and develop solution to the issue. Thus as compared to many other modes of operating under circumstances in which the political mode prevails, decision makers are less likely to fall prey to cognitive biases arising from an exposure to limited alternatives.

In the political mode decision makers may be flexible in their attitude and they often change their positions between their short term and long term interests. Junzhe (2010:81) stated that "decision makers tend to make decisions on the basis of pre-conceived erroneous beliefs despite abundant evidence in

numerous trials that they were wrong, moreover, decision makers usually overestimate the value of information which confirms their hypotheses and undervalue disconfirming information. Decision makers attempt to interpret the favored alternative with several values simultaneously and have no cost associated with it". In the political mode when there is lot of oppositions to one group's decision they come up with innovative ideas to succeed in their objective.

The modes of decision making are heterogeneous to each other though there are some similarities remain same within the modes. The process of realizing a problem, creating the alternatives and implementing and monitoring it is defined as the rational mode. Rational decision making process involves cognitive process where each step is followed in a logical order from the one before. In case of avoidance mode the organization tend to avoid risk and uncertainty in their decision making process. The main aim of this mode is to maintain status quo. Logical incrementalist mode is based on step by step decisions which help the organizations to gain experience which will help them to avoid risk further. Garbage can mode of decision making emphasizes on systematic anarchic perspective while the political mode is focused on the participants who are involved in the decision making process and their attitude towards fighting for their decision that has to be taken in to consideration. When compare logical incrementalist mode and avoidance mode the similarity is both focused on avoiding the risk and uncertainty in their decisions. The similarities between garbage can mode and political mode may be that both may have problems due to the participants in decision making and moreover there is less emphasize in this modes to analyze the risk and uncertainties that are likely to happen due to the decisions. Rational mode may be bit different when compared with other modes as this mode evaluates the alternatives systematically and as well it monitor the decision that has taken in which the

decision makers have control over the risk and uncertainties associated with this mode.

When the firms make a decision regarding their entry mode decision making process it may also involve the above discussed modes such as rationale mode, avoidance mode, logical incrementalist mode, garbage can model and political mode depending on the environment and situations where and how the firm want to enter. Strategic decision making plays a vital role for the organizations decision to choose particular mode of entry. The above discussed strategic decision mode may contribute to the organizational decision making to choose the mode of entry. The organizations may take a decisions based on the rational mode and they may consider the alternatives systematically.

During the entry mode decision making avoidance mode may have greater advantage. The ultimate aim of any firm is to avoid the risk and uncertainties and this mode help the organizations to recognize the problems those are associated with a particular mode. The decisions based on this mode may have less creative ideas when compared with other modes.

Firms may take step by step decisions when they decide to choose a mode of entry, which can be considered as the logical incrementalist mode. The decisions based on this mode help the organizations to learn the problems and mistakes that happen in the foreign markets incrementally. Though this mode takes long time to implement a decision the firms may have flexibility during the entry mode decision making process.

Garbage can mode of decision making may have major influence in entry mode decision making as the problems and solutions are associated with it randomly. The decision makers often change their mind and this may also apply in entry

mode decision making as well. The firms may consider time and chance in market entry decision making as they are the accountable factors in garbage can mode.

The entry mode decisions based on political mode of strategic decision making may involve participants who may fight for their decisions to be recognized. This model may have less influence in entry mode decisions as it is kind of power struggle among the participants. If the entry mode decisions are based on political mode the organizations has to compromises by shifting the positions and repackaging the proposals. As this mode may bring innovative ideas from the participants it may be greatly advantageous in entry decision making.

The upcoming table gives an overview about the different types of decision making modes.

**Table 1.** Overview of decision making modes

Decision modes	Key points
<b>Rational mode</b>	<ul style="list-style-type: none"> <li>▪ Decisions are based on complete information and involves cognitive process</li> <li>▪ The objectives are clear and unambiguous</li> <li>▪ Complexity and time pressure is low</li> </ul>
<b>Avoidance mode</b>	<ul style="list-style-type: none"> <li>▪ Maintaining status quo is the objective</li> <li>▪ Decisions are based on to avoid risk and uncertainties in the process</li> <li>▪ Decision making process lead resistance to change</li> <li>▪ Complexity and time pressure is low</li> </ul>
<b>Logical incrementalist mode</b>	<ul style="list-style-type: none"> <li>▪ Complex decisions are converted in to simple decisions</li> <li>▪ This incremental method helps to gain experience and learning which may help to reduce risk and uncertainty for the future course of action</li> <li>▪ Complexity is high and time pressure is low</li> </ul>
<b>Garbage can mode</b>	<ul style="list-style-type: none"> <li>▪ Builds in complex interaction of problems, solutions and choice opportunities</li> <li>▪ Complexity is high and as well time pressure is also high</li> <li>▪ Four basic variables are considered such as stream of choices, stream of problems, rate of flow of solutions and stream of energy from participants.</li> </ul>
<b>Political mode</b>	<ul style="list-style-type: none"> <li>▪ Power full participant achieve success during the decision process</li> <li>▪ Decision makers often change between their short term and long term interest</li> <li>▪ Complexity and time pressure is high</li> </ul>

### 2.3. Decision making in entry mode context

The firm's decision to enter in to a new market has to go through different stages in order to achieve success in choosing right entry mode. There are also many factors which have their impact in decision making stage. Butler et al. (1979:32) points out that decision making in different organizations may differ because they face different problems. Firm's outputs and technologies, environmental situations and their self-organizational difficulty generate variety problems, perhaps which can generate contrasting in decision making. As it is one of the most critical strategic decisions for a firm to be internationalized and is an utmost important topic in internationalization of the firms, it has become aim of many theories and many possible models that has been developed to explain the decision making process in deciding the right entry mode choice (Root 1994:21).

There have been approaches identified by different authors in deciding the right entry mode. In this section, some of the important approaches are discussed. Root (1994:181) identified three rules in deciding the right entry mode such as naive rule, pragmatic rule and strategy rule. According to the first, naive rule the firm use the same entry mode for each target market. Once a firm is successful with an entry mode in a foreign market, it prefers to follow the same in every international market it is targeting. That is regardless of the country environment or rules and regulations the firm would like to use the same entry mode which it used earlier. With this it is difficult to survive for a longer period of time as every county has their own regulations. When firm decides to enter a foreign market in only one way it follows the naive rule. That is for example a firm is committed to their decision that they only export or they only license. It is always important to note that each country environment is different from other. With the variations from country to country because of the

different environments, the internationalization pattern may also vary (Luostarinen & Welch 1990:262). There may be many reasons behind choosing only one form of entry mode in every country it is entering. Once it is successful with one entry mode the firm may feel that it has got enough experience in that particular entry mode and wants to use the experience in other countries also. But the success rate can be less in this form of entry mode.

The second rule is Pragmatic rule which has a little bit sophistication over the naive rule. In this, firms try to use an alternative entry mode depending on the target market in which it enters. A firm may or may not be successful with this rule. Many of the firms follow pragmatic rule when entering into a foreign market. Here experience plays a great role as it is quick decision taken by the firm to enter into different foreign markets. Most of the export mode decisions are undertaken in a spontaneous process without considering formal approach or consulting the experts (Mc Naughton 2001:18). Many firms follow the pragmatic rule as the firms try to evaluate their experience in the previous market and it compares the feasibility in the market which it decides to enter.

The third rule is strategy rule which has significance in many of the firm's entry mode process. Root (1994:182) stated that "when the firms follow a sequential process of decision making by evaluating and analyzing the different factors involved and they take enough time to figure out the host country environment clearly". The decision makers try to identify the right entry mode by their strategy which is a time consuming process and as well it involves loads of efforts in it. Strategic approach is a formal or structured analysis, and it is a long time process based on proper studies and evaluations. It involves a systematic approach and detailed analysis of alternative entry modes in the market. A formal structured decision making is a process with balanced evaluations of the existing conditions. In this process all the circumstances are taken into

consideration before entering into a foreign market. It includes various options to be considered with severe rationality and it is considered to be a traditional strategic decision. They need to choose the entry mode that can maximize their profits by putting minimum resources afforded by the company with the evaluation of risk factors and avoid nonprofit objectives.

Whereas, Mc Naughton (2001:15) also identified the three different approaches in entry mode decision making process such as intuitive, mixed and formal/structured. In the first intuitive process he explains that decisions are made in a hasty manner without proper evaluations of alternatives or study. There is no formal assessment of alternatives in this process. In the second mixed approach he explains that there may be absolutely no reason or logic to the decision making process. Instead, there is an inner knowing, or intuition, or some kind of sense of what the right thing to do is. Where in his third formal approach claimed that, it is a systematic and structured process which considers all the aspects and it evaluate those aspects in a proper manner. Formal process a long process in which detailed analysis is carried out before entering into a foreign market. In this process it normally focuses on relative costs, flexibility and marketing advantages.

Luostarinen and Welch (1990:250) concluded that, "deciding the intended entry mode does not correspond to the final mode chosen, but it is a long term process as the modes are tend to develop in an open ended process". Many authors have supported the strategic process of decision making process. But strategic process also tends to some bias as Das and Teng (1999:757) suggested that "cognitive biases are systematically associated with strategic decision processes". A cognitive bias has always its place in a strategic decision making process. As many researchers suggested cognitive biases are strong tendencies and they have their effects on various situations (Zajac & Bazerman 1991:52).

According to Lindzey and Aronson (1985:232-279) there are two models which are relevant to the decision strategy which are rational analytic strategy and cybernetic strategy. Rational analytic choice is considered to be a complex and formal process which comes out with a correct decision but sometimes may not direct to a correct choice. It is a deep and elongated process with all the available resources used completely to monitor each and every effecting variable thoroughly. Where as in case of cybernetic strategies only some important variables are monitored and it is to follow for small and medium sized businesses. "Cybernetic model posits a very circumscribed decision process, involving highly focused sensitivity to a few critical variables, the avoidance of outcome variables, the avoidance of outcome calculations, and the reliance on well- learned action sequences established by prior experience" (Lindzey & Aronson 1985:279).

Whereas according to Muller (2000:N6) rationality is defined strictly as the incremental use of information to resolve uncertainty around a decision as it appears to be beneficial in both dynamic and stable environments. From this it seems clearly that entry mode decision making process is a rational process. For some firms it may be, but it is not the same situation for all firms. This is true that often smaller firms have an unplanned behavior in their export activities.

According Kumar and Subramaniam (1997:63) analytical decision strategies are made by considering the alternatives explicitly and whereas in the cybernetic decision strategies the alternatives are not considered explicitly. In the analytical decision strategies all the factors that affect the decision are considered and in the cybernetic strategies only the relevant factors that affect the decision are considered. The analytical decision strategies lead to optimal decision whereas in the cybernetic strategy it may or may not lead to optimal decision. In the analytical decision strategies large amount of time, money and resources have to be spend to acquire the information's that are required for the

decision making whereas cybernetic decision strategies does not require large number of resources and money. In the analytical decision strategies uncertainty is dealt through assignment of probabilities to outcome and in the cybernetic decision strategies uncertainty is dealt through highly focused attention and programmed response.

During the internationalisation process the decision makers does not have enough time in decision making which leads them to avoid certain barriers in choosing the right entry mode. Mc Naughton (2001:14) stated that “most of the smaller exporters do not follow an organized way in the planning of an entry mode and do not involve themselves completely in the market research of the host country”. There are many instances when managers are faced with constraints that prevent them from undertaking an elaborate information search necessary for arriving at an optimal decision (Kumar & Subramaniam 1997:55).

In some cases there are some smaller firms who do not have sufficient funds to collect the information which are required to choose the right entry mode. Anderson and Gatignon (1986:2) explained that, with the fast growing technology, the competitive world is pushing the companies to prove themselves in the global market within no time. Many studies show there is less number of companies which put forward their efforts to identify and evaluate their alternative entry modes. Whereas, Zhao and Olsen (1997:81) stressed that, assessment of target country market is a necessary thing for any firm when entering into a foreign market. If it enters without considering cautiously the foreign market environment, it may have to face the negative results. A firm's future may be in risk without proper developments in its growth and it may lose its opportunities by assigning the resources in a wrong manner.

It may be difficult to follow, but the end result is almost fruitful with good results. Rules are always hard to follow, but it guides the managers to have a better choice of entry mode (Root 1994:182 & Mc Naughton 2001:15). A balanced strategic decision approach may be too difficult and it may take longer period of time for the managers to decide a correct entry mode to apply practically. But it is the manager's responsibility to identify a suitable entry mode when entering into a foreign market which is quite different from our own parent country (Root 1994:184).

According to Luostarinen and Welch (1990:263) up to 1970s internationalization process was undertaken considerably in a systematic way. They used to follow stepwise process by exploring all the influential factors of the host country environment in early stages of firm's internationalization process. It was a balanced approach with a very good knowledge about the target country market. But the recent studies show that there is less number of firms which follow the strategic approach. Now the whole process is speeding up with fast decisions.

Thus it can be a formal structured process or it can be done in a spontaneous way without taking into consideration of all the influencing factors. Every process has its own positive or negative results. There are many authors who shown their interest in identifying the approaches regarding the entry modes. Every author has their own view, but the outcomes are quite similar as they support the formal evaluation of alternatives when entering into the foreign market. Naughton (2001) stated that, the response given by different firms about their implementation of different strategies. The response from different firms clearly shows that firms following a formal process are very less. As Root (1994) suggested firms normally follow the pragmatic rule, Naughton's (2001) results are in the similar manner. Both the authors have shown that firms rarely follow a structured process when entering into a foreign market.

In the similar way Beach and Mitchell (1978:448) explained that selection of the strategy depends upon the compromise between the desire of a decision maker to make an accurate decision and desire to minimize their efforts. A complete assessment is required in this process. In the early stages of decision process some of entry modes are ruled out which are not feasible. Sometimes managers may make mistakes in identifying the advantages or disadvantages or in assessing the profit contribution, but the ratio of an optimal decision is more in a strategic approach.

Whereas, Kumar and Subramanian's (1997:65) rational and cybernetic strategies differ in their own way. Even though both the processes are sequential cybernetic decision strategy is limited to consideration of few critical alternatives. In case of rational analytic strategy decisions are made through consideration of all the alternatives available clearly. But in this process every alternative entry mode is being considered till the end of the process unlike Root's. Large amount of time and resources have to be spent on both the decision making process. Cybernetic decision strategy takes less time and resources, but the result may not be an optimal one as in case of rational strategy.

#### 2.4. Decision criteria in entry mode choice approaches

Every approach in choice of entry mode has its own criteria which explain its specificities. Decision criteria help in making the right decision as it is a standard by which something can be judged or decided. Different factors such as internal and external may influence the process of making a final choice by selecting the best solution among the available alternatives.

The market entry decision making in the entry mode choice approaches are based on various factors such as cost, control, ownership, and transaction. The firm's choice of entry mode can be described by various theories and models. Several authors have provided different models consisting of a variety of stages in deciding the right entry mode. The academic literature has discussed enough of internationalization models. In this scenario this section portrays the some of the significant models based on firm's choice of entry mode. Datta et. al., (2002) supported this by saying that these models will help to understand and identify the large number of factors that potentially have an impact on entry mode choice and have enriched our understanding and predictive ability of foreign operation decisions. Models of internationalisation such as the internalisation and stages of development theories do not directly characterise the foreign channel selection process. However, their arguments hint at an evaluative process. Johanson and Paul (1975:306) stated that internalisation models are based on the argument that firms choose the optimal governance structure for each stage of production by attempting to minimise the costs of economic transactions.

According to Transaction cost analysis (TCA) model firm's decision to enter in to a new market is based on the least transaction costs. The decision criteria of this model is based on the long term risk adjusted efficiency. The firms evaluate the cost, control, risks and uncertainties in the host country which makes the decision criteria of the firms. Transaction cost analysis model (TCA) which was proposed by Anderson and Gatignon (1986:7) emphasize that organizational structure and design are determined by minimizing transaction costs; they concluded that Multinational Enterprises (MNEs) choose a specific mode of market entry which maximizes the long term risk-adjusted efficiency. The choice depends on four constructs that determine the optimal degree of control: transaction specific asset, external uncertainty, internal uncertainty, and free riding potential. Besides Anderson and Gatignon (1986:3) added that

international entry mode choices are most usefully and tractably viewed as a trade-off between control and the cost of resource commitments, often under conditions of considerable risk and uncertainty”.

This risk and uncertainties can be viewed as factors associated with the host country. Here the decision criterion is to help the managers to understand how well their decisions have been acted and how they can improve their overall performance by minimizing the cost (Transaction Cost Analysis A-Z: 9).

According to organization capacity model (OC) developed by Aulakh and Kotabe (1997:148) firms are bundle of knowledge and capabilities where individual skills, technology and organization are inextricably bounded together. Zhao and Decker (2004:7) claimed that entry mode decision is the firm’s boundary issue which is capability related one and it is made under a calculus governed by coed to the deployment and development of a firms capabilities. This model takes organizational capacity as a main thing for entry mode choice decision making. However according to Zhao and Decker (2004:9) that this models also have some limitations. The traditional assumption is that the capacity of an individual firm is limited to ownership is invalid when a firm’s efficiency related decisions are significantly influenced by collaborative agreements which might change its capacity strongly. Adopting that a strategy is not only dependent on the organization capacity but also on the organization efficiency, measures of organization efficiency have to be developed. This model also neglects the impact of the decision maker as well as of sociological and political factors. In this model the decision criteria is based on the capabilities of the organizations and the individuals associated with the organizations. This model emphasize that the decision of an organization to enter in to a foreign market depends upon its capability.

The (OLI) Ownership, Location and Internationalization model was introduced by Dunning in (1977). Moreover, this model was developed subsequently by

Dunning in (1995, 2000 & 2001). According to this model the entry mode decisions are determined by the composition of three sets of advantages as apparent by firms. (a) ownership advantage - are specific to the nationality and nature of the firms owner,(b) location advantage-different location has different resources and regulations which affects the earnings and cost of the firm and (c) Internationalization advantages - are gained from transferring ownership advantage across the boundaries of nations within the organization. It further explains the high control of foreign owned subsidiaries can be achieved by possessing firms OLI advantage. Later on Dunning (2000:167) included "initially the eclectic paradigm primarily addressed static and efficiency related issues but more recently has given attention to the dynamic competitiveness and locational strategy of firms, and particularly the path dependency of the upgrading of their core competencies".

## 2.5. Exploration of decision making stages

Decision making to enter in to foreign market may involve various stages and each stage may have various sub stages. The first stage may be that the organizations analyses their need to enter in to a new market and the need for the organizations could be for maximizing the revenue, to achieve competitive advantage, product maturity at their home market etc. This need identification stage is followed by several other stages such as analyzing the external, internal, market, cultural, economic and political factors. Later on the organizations choose a decision strategy in order to select a particular mode of market entry.

According to McNaughton (2001:13) "stages of export development models suggest that foreign market entry is achieved through an evolutionary process

characterised by increased resource availability and increased knowledge of foreign operations". With systematic comparisons of alternative entry modes Root (1994:187) proposed a strategic model where managers start the process by reviewing all the entry modes for feasibility with respect to the foreign target country and with respect to the company's resources and commitments.

This section discusses the decision making stages of decision making process in contingency model which was proposed by authors such as Kumar and Subramaniam (1997), Root (1994), and Beach and Mitchell (1978). Based on the models developed by various authors the decision making stages may be divided in to six stages which are (A) Identifying the need to enter in to foreign market, (B) Assessment of external influential factors, (C) Assessment of internal influential factors, (D) Selection of decision strategy, (E) Data collection and information processing and (F) Selection of mode of entry.

#### 2.5.1. Identification of the need to enter into foreign market

The firms expand their business from domestic market to other foreign market due to various reasons such as domestic competition, product maturity, increase in production and labor costs, non-availability of resources and of course to maximize their revenues. The first stage in the decision making process is to identify the need of firms interest to enter in to a new market. When follow Kumar and Subramaniam (1997:59) according to them the first stage in decision making involves problem recognition where managers try to identify the actual need to enter into a foreign market. Here they tried to differentiate between the firm's current state and the desired state. Whereas, Root (1994:43) claimed that there may be many reasons behind firm's entry in to new market. One of the reasons according to him "companies become committed to international markets only when they no longer believe that they

can attain their strategic objectives by remaining at home". There comes a situation where almost every firm needs to be internationalized to attain their desired success. It does not mean that all the firms need to be internationalized but it has become necessary to be internationalized when the competition is more and the demand is less in the home markets. This has placed the many of small and medium size enterprises (SMEs), in a situation to internationalize their businesses. "Firms pursue strategies of internationalization for various reasons, for example in order to generate economies of scale or to achieve efficient utilization of resources, market expansion, and diversification as a means of controlling political and financial risks"(Chen and Hsu 2010:1).

Once the necessity is identified, decision makers proceed to the next stage where the task is evaluated as to explore the requirements for the mode of entry.

#### 2.5.2. Selection of decision strategy

As discussed in the chapters 2.2 and 2.3 there are various decision making modes which may be applicable to enter in to a foreign market. Though there are various decision strategies for market entry mode exists rationale analytical decision strategy and cybernetic decision strategy are the two important strategies which are proposed by Lindzey and Aronson (1985).

The selection of decision strategies are done by choosing the possible modes that fulfills the entry mode criteria. The various modes of strategic decision making process such as rationale mode, avoidance mode, logical incrementalist mode, garbage can mode and political mode are discussed in the chapter 2.2.1 which explains the characteristics of the decision making modes.

### 2.5.3. Data collection and Information processing

Data collection is the crucial stage in the decision making process. Kumar and Subramaniam (1997:60) explains that “decision making strategies in market entry mode may involve elaborate and costly information collection and processing while some may be based on heuristics”. Data collection to enter in to foreign market may be divided in to external sources of information and internal sources of information.

Internal sources of information are the source or expertise information that is available with the company itself. The firm may accumulate the information about their resources such as capital, technology, labor force, infrastructure etc., which influence the firm to decide certain type of entry mode. If the firm is smaller with limited resources then the firm may have fewer options in choosing the entry mode to enter in to a foreign market. If the foreign market is bigger than the domestic market of a firm then the firm is in an obligation to have more resources to produce large number of products to expect the demand. If a firm is based on high end technological products with limited resources it may not be suitable to go for licensing or contract manufacturing as there may be copyright and patent issues in the foreign market. So the firms should alternative entry strategies to avoid copyright infringement and patent issues. Thus, the firm’s internal resource is also one of the influential factors in foreign entry mode decision.

Whereas, the external sources of information is the information that is collected through external consultants who are expertise in the data collection field. The external sources of information consists of data regarding external environmental factors such as host country market, cultural, economic, political and home country factors. According to Morschett et al., (2010:61) there are at

least six key dimensions in the external environment of a host country which is associated with the choice of entry mode which are cultural distance, market attractiveness, uncertainty of the host country environment, legal environment in the host country, competitive situation in the host country and political environment. For most of these six dimensions, different facets are used and different variables are investigated. Firms have to evaluate these above mentioned factors in order to assess the available resources for the firm to decide an appropriate entry mode. To add on Chen (2008:305) stated that the host country factors can decide the best or right entry modes, it can be recognized depend on wide range of literature review. Such factors consist of cultural distance, trade link, colonial link, language proximity, host market attractiveness, investment risk entry restriction and competitive intensity.

Firms should take the external factors into account and then choose appropriate entry modes to achieve the objective of internationalization. Pan and Tse (2000:537) specified that, "consideration of environmental factors in entry mode choice are depending on the levels of hierarchy. Sometimes managers may consider only some critical factors at every level of the hierarchy and different at different levels of hierarchy". Assessing the external factors of host country environment is worthwhile for the organizations in order to achieve competitive advantage against their competitors and as well it helps to avoid the risk and uncertainties. The following are the issues that comes under external influencing factors which the organizations collect data before entering the new market.'

Many firms rely on their internal sources of information than external one as the external sources of information may have less impact in their decisions. The firm's decision to use a particular source of information may also depend upon their choice of entry. According to Klienschmidt and Ross (1984:13) "the

external information sources have less impact on export market decisions than internally collected data” from this it is clear that the sources of information and their influence in decision making depends upon the choice of entry mode.

In certain situations the firms have to rely on external sources of information as there may not be enough resources and expertise for the organizations to collect the data to enter in to a new market and this may be applicable in the small and medium enterprises. The small and medium firms are largely interested to expand their businesses and they spend extensive analysis to gather data to enter in to particular market and choose particular mode of entry. Small firms conduct extensive analysis of channel options, instead making a decision fairly quickly based largely on internally generated information rather on external consultation (McNaughton 2001:14).

The data collection may be divided in to primary and secondary data. The data collection to enter in to a new market may include market factors and various environmental factors such as political, economical, cultural and social factors. On the other hand the data collection also involves collecting the data on various risk factors that are involved in entering the market which are country risk, economic risk, political risk, market risk, cultural risk and social risk. These factors play a significant role in collecting data. Besides, data collection also involves various stages that frame the activity.

Information processing is the aspect of analyzing the data collected during the process. The validity and reliability is also included during the information processing. The processing of information helps to analyze the different strategies which leads to the next step in the decision making process which is selecting the right mode of entry.

#### 2.5.4. Selection of mode of entry

Selecting the right entry mode comes as the last stage in the decision making process. The mode of entry includes (a) exporting which includes direct and indirect exporting, (b) contractual agreements which include licensing and franchising, (c) joint venture, (d) acquisition and (e) green field investment. The firms choose one of the entry modes after completing all the other previous stages. The selection of a particular entry mode depends on how favorable they are in the host market for a firm and what kind of resources it requires.

According to traditional model of the mode of entry decision when managers make the decisions, they consider all the entry modes together at the same level (Kumar and Subramaniam 1997: 66). Kumar and Subramaniam (1997:68) proposed a single stage model in choosing mode of entry decisions by firms. According to them when the firms decide to choose a particular entry mode they choose between the modes such as exporting (direct and indirect), contractual agreements (licensing and franchising), joint ventures (majority and Minority strategic alliances), acquisitions (hostile and friendly) and Greenfield investments. Whereas, Pan and Tse (2000:537) categorized mode of entry in to two stages model, where firms choose entry mode between equity and non-equity entry modes. According to them equity mode consists of equity joint ventures (majority and minority JVs) and wholly owned subsidiaries (Acquisition and Greenfield investments). Non-equity mode consists of export (direct and indirect) and contractual agreements (licensing and alliances) modes of entry.

The market entry as equity and non- equity modes are based on the amount of resource commitment that is necessary to establish operations in the foreign market. The equity modes are those that require a major resource commitment

from the firm. Joint ventures, acquisitions, and green field investments (setting up and entirely new plant) can be classified under this title. Exporting and contractual agreement can be considered as non-equity modes of entry because they require considerably lesser resource commitment from the firm. The equity and non-equity modes also differ considerably on the risk, return and control characteristics (Rangyai 2007:30).

**Table 2.** Stages in entry mode decision making  
(Adopted from Kumar and Subramaniam, 1997)

<b>Exploration of decision making stages towards foreign market entry</b>	<b>Key factors during the decision making stage</b>
<b>Identifying the need to enter in to foreign market</b>	<ul style="list-style-type: none"> <li>➤ The companies enter in to foreign market due to the competition in the Domestic market, maturity of products, and attractiveness of Foreign market size</li> <li>➤ Resource availability to expand internationally and to achieve economic growth and competitive advantage in the foreign market</li> </ul>
<b>Selection of decision strategy</b>	<ul style="list-style-type: none"> <li>➤ Consideration of cost benefits</li> <li>➤ Influence of decision maker and their knowledge, ability and commitment</li> <li>➤ Characteristics of decision tasks</li> </ul>
<b>Data collection and Information processing</b>	<ul style="list-style-type: none"> <li>➤ Firms collect information regarding the external and internal influencing factors.</li> <li>➤ Collecting data on markets factors and other environmental factors such as political, cultural, economical and social factors</li> <li>➤ Collecting data on various risk factors</li> <li>➤ Firms collect information on their internal factors such as capital, labor force, technology, infrastructure, and other organizational resources.</li> <li>➤ Processing the information to choose right strategy</li> </ul>
<b>Selection of mode of entry</b>	<ul style="list-style-type: none"> <li>➤ Selection of entry mode can be based on single stage model such as exporting, contractual agreements, joint venture acquisition and Greenfield investment.</li> <li>➤ Selection entry mode may also include equity mode such as acquisition, Greenfield investment and joint venture and Non-equity mode such as contractual manufacturing and exporting</li> </ul>

## 2.6. Decision making to enter emerging markets

Emerging market is considered as the important market by the organizations due to their size and growth opportunities. "An emerging market can be defined as a country in which its national economy grows rapidly, its industry is structurally changing, its market is promising but volatile, its regulatory framework favors economic liberalization and the adoption of a free market system and its government is reducing bureaucratic and administrative control over business activities (Luo 2002:5)". The emerging markets are also the one which is aiming at transform the centrally planned system to a market dominated system due to political unstableness. Emerging markets are also called as the developing countries which are bigger in its market size and making reforms towards a market oriented economy.

Corporate interest in emerging markets has risen significantly over the past few years, due to the potential for new sales. Reputable companies may quickly take hold of large markets and, once their presence is established, obtain significant sales growth over time, even if market share remains unchanged (Nakata and Sivakumar 1997:465). Thus, the firms from the developed nations with their local experience are keen on entering the emerging markets due to saturated growth, increasing competition and increased costs at their home market.

Emerging markets are also known as developing countries which has attracted the interests of multinational enterprises. Lindh (2009:10) stated that "developing countries may easily be thought of as countries in which to build manufacturing plants or where production can be outsourced. However, regardless of the level of economic development, these countries constitute very large markets for a big variety of products. With the economic development in many developing countries the spending power increases and the term

emerging markets is therefore often used to describe developing countries. Large emerging markets like China, India and Brazil have received a lot of attention from researchers looking at various aspects of foreign market entry". Thus emerging markets entry mode has gained great importance among many various levels of business community and as well among the multinational firms. Organizations are rushing to enter in to emerging markets as first mover while still few organizations are waiting to learn the mistakes from their competitors.

Though many of the emerging markets seem to be highly challenging for the organizations to do business due to various environmental, and market factors it hasn't stopped the organizations ambition in entering this markets. Rahman and Bhattacharya (2003:141) stated that "emerging economies merit attention because many of the advanced economies now suffer from economic recession or stagnation, ageing population and low fertility rates leading to low growth in various product markets. The challenges which are mentioned above may be a proving factor for the firms how difficult is to enter in to these emerging markets.

However firms have their significance and ambition in entering these markets. Kotler and Keller (2006:669) list the reasons of firm's intention to enter in to a new market as follows. "(a) Reducing dependency on one single market, (b) firms discover the higher profit opportunities in the foreign market than in the domestic market, (c) firms need for a larger customer base to achieve economies of scale, (d) need for service and products in the new market and (e)counter attack against the companies that has entered the new market". The same reason also applies to the reasons for firms entering in to the emerging markets.

According to Prahalad and Hammond (2002:48-54) the following are the series of strategies that can facilitate companies to expand entry into emerging markets. (a) Overcoming external barriers is an important promoter in speeding up economic growth and creating more effective markets by connecting the informal sector and established market. (b) Change management perspectives- making internal changes is important in reaching out the external partners. (c) Build new partnerships- It is a fundamental part of entering into emerging markets to develop partnerships who know the markets well and partnerships can limit risks. (d) Change organizational structure- It may be necessary to set up new structural changes such as R&D units in developing countries that are specifically focused on local opportunities. e) Share risks- It may be risky to enter into an emerging market. It can be minimized by developing alliances between companies that share a common interest.

When the firms decide to enter in to emerging markets selecting the right mode of entry helps them to sustain the market. Emerging markets also have lot of competition as many organizations are interested to enter in to this market in an aggressive way. The firms are also benefited by first mover and late mover advantage in the emerging markets. The firm's decision to choose particular entry mode also depends upon the size of the market. When the market is big the firms may enter in the market by green field investment, acquisition or joint venture. If the market size is small and risky the firms may start their account by exporting, licensing and contractual agreement. Later firms move on by shifting their entry mode to other channels such as acquisition or wholly owned subsidiary.

In the recent years the emerging markets have also attracted brown field investments. Greenfield project gives the investor the opportunity to create an entirely new organization to its own specification, but usually entails a gradual

market entry. An acquisition facilitates speedy entry to the local market and access to resources, but the acquired firm will not necessarily match the expectations of investing organization. In this situation in the emerging markets, acquired firms are often extensively restructured to resemble a green field investment which is termed as “brown field investment” (Meyer and Estrin 1998:1).

The companies require entirely different strategies to enter in to emerging markets. The decision making has a huge significance in choosing the right entry mode in entering the emerging markets. The process of entering the emerging markets and expanding further includes several aspects such as deciding the right entry mode, managing operations, finding target group, speed of expansion in the later stages, developing the network etc. So the firms are in serious process to make a right decision using the evolutionary perspective in order to adjust with the rapidly changing environment in the emerging market which is not constant due to the investment policies of the nations, economic reforms, industrial structure and regulatory framework.

## 2.7. Summary of the theoretical framework

The theoretical framework of this study starts by explaining the strategic decision making where it explains the process and the activities associated with the strategic decision making process. A simple well defined decision task can be easily resolved by using simple strategies that involve very little information processing and no formal rules. On the other hand, decision strategies for complicated ill-defined decision tasks may involve varying degrees of information processing and formal rules. In order to choose amongst the different decision strategies, the decision maker has to have a clear idea about

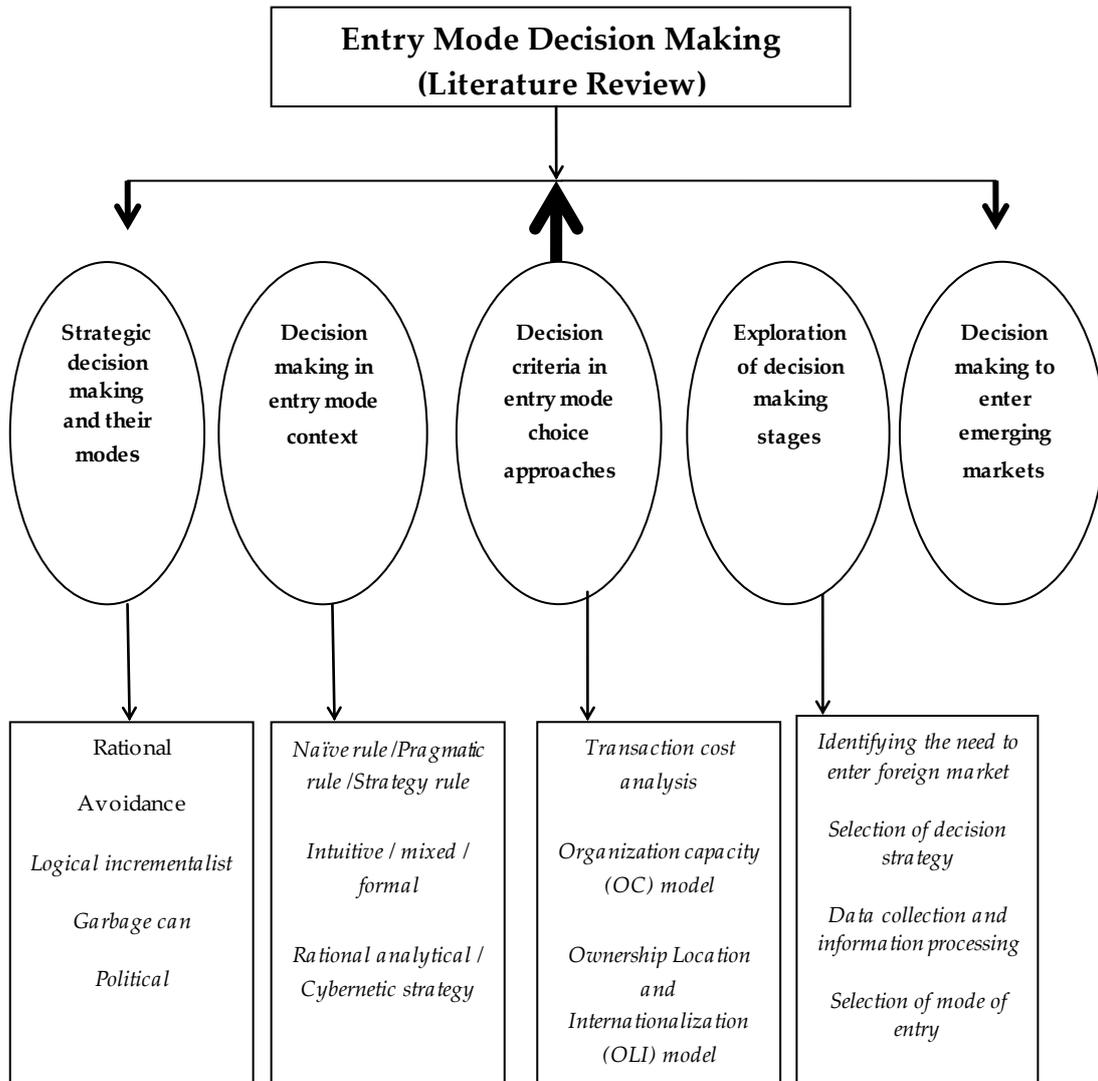
the nature of the decision problem and the decision environment. Then the decision maker can choose among various strategies (Rangyai 2007:17).

The following section discusses about the different modes of decision making such as rational mode, avoidance mode, garbage can mode, logical incrementalist mode and political mode. The next section explains the decision making in the context of market entry mode. Decision criteria in the market entry mode approaches is explained in the next section.

The next section explains the exploration of entry mode decision making process which explains the stages in the process. The entry mode decision making process consists of stages such as identifying the need to enter foreign market in order to attain the desired success. The next stage in the process is selection of decision strategy where it identifies various decision strategies to select the best one. The next stage in the decision making process is data collection where external and internal sources of information are collected. The final stage in the decision making process is the selection of entry mode where the suitable mode is selected among the entry mode choices such as joint ventures, acquisitions, green field investment and contractual agreements. The final section of the literature review discusses about the emerging markets and their importance in the current international business scenario.

The above discussed sections explained the decision strategies, strategic decision making, different types of modes in decision making, decision making criteria in various approaches and exploration of decision making stages. The characteristic of the decision making is very significant in the entry mode decision making process. The following figure 2 gives an overview about the entry mode decision making which is the theoretical framework of the study.

**Figure 2.** Theoretical framework –Entry mode decision making



### 3. RESEARCH METHODOLOGY

This section will discuss the methodology of the empirical study. This part will give an overview about the methodology used in the study, data collection, data interpretation and as well it explains the validity and reliability of the study.

#### 3.1. Research method

The study would be based on qualitative research approach as qualitative research approach explains the natural happenings which are more concentrated and flexible. "Qualitative research goes beyond the measurement of observable behavior (what) and seeks to understand the meaning and believes underlying action (why and how)" (Piekkari and Welch 2004:8).

Qualitative research approach seeks answer for the question in a descriptive manner. Qualitative research brings information about the human side of the issue such as belief, opinion and emotions that are contradictory. Moreover, qualitative approach refers to those procedures which produces descriptive data such people own written or spoken words and observable behavior. Qualitative methods allow interviewer to know the respondent personally and to see them as they are developing their own definitions of the world. Interviewer experience what the respondent experience in their daily struggles with their society. Interviewer learns about groups and experiences about which they know nothing. Qualitative approach gives broader perspectives from the interviewees whose data is rich, full earthly, holistic and real. Their face validity seems unimpeachable, they preserve chronological flow where

that is important, and suffer minimally from retrospective distortion; and they in principle offer a far more precise way to assess casualty in organizational affairs than arcane efforts like cross-lagged correlations (Miles 1979: 590).

In this study qualitative research study is used rather than quantitative as it is rich in the context and brings out the real time experiences of the respondent. The difference between quantitative and quantitative method is not just a question of quantification, but also reflection of different perspectives on knowledge and research objectives (Ghauri & Gronhaug 1995:109). As the purpose of this study is to bring out the instances of market entry decision making process in detail quantitative research approach is the apt one to which also would be added value to achieve the basic objective of the study.

The experiences of strategic decision makers in the organization can only be collected through the qualitative approach as it would be harder to quantify the information's rendered by the market entry decision makers by quantitative approach. The decision making to enter in to a new market involves complex situations and stages which could not be explained in other approaches other than the qualitative studies. Moreover, the qualitative approach also helps to gather in-depth understanding of the market entry decision making process. Thus the qualitative method will bring various aspects of decision making process of the organization during the new market entry mode decision making in this study.

### 3.2. Case study method

This study would be based on case study method which analyzes the case study of an organization that has entered in to a new market with special emphasize

on emerging market. This research aims to find out the case of the decision making process of an organization in entering in to the foreign market. Case study method is based on in-depth investigation of a single or multiple cases of companies. The outcome of case study is generally descriptive in nature.

The reason for choosing case study method that it is more relevant for this study as it involves information oriented sampling. According to Yin (2009:4) “case study method allows to investigate to retain the holistic and meaningful characteristics of real life events”. In this study it is very important to gather the experiences of participants who were involved in decision making process during the market entry situation, and this experience could only be gathered by case study method as it helps to explore causation in order to find the underlying principles in market entry decision making process. “Case study refers to an in-depth exploration of a program, an event, an activity, a process or one or more individuals” (Bhattacharya, Patil and Sargunan 2010:1553).

This study is based on examining the single case study approach. The reason for using case studies is that it gives the perspectives of single case in depth. In this study the cases of a company’s market entry decision making process will be analyzed. The single case study method is best suited for this research study as it would be more concentrated to bring out the single views of the market entry decision making process. This study concentrates on the case company Vacon, which would analyze the entry mode decision making process to enter in to a new market.

### 3.3. Data collection and interpretation

Data collection is the process of collecting data from the respondents in order to maintain and analyze the data to find out the best possible solution. The data is divided into primary and secondary data. In this study the primary data would be collected by unstructured interview from the respondents who are basically the decision makers in the organization who make decisions regarding the entry of foreign market. The reason for using unstructured interview is that “it attempts to draw out information, attitudes, opinions and beliefs around particular themes, ideas and issues without the aid of predetermined questions. In order to do this interviewers use a more conventional style and attempt to prompt, probe and develop questions on the spot as it is appropriate to the ongoing conversation” (Leary 2004: 164).

Data collection for this study is divided into primary and secondary data. The primary data was collected from the interviewee from the case company. The respondent was selected on the basis of experience of market entry and entry mode decision making process. The interview with the case company's respondent lasted for ninety minutes. The interviewee had clear understanding and knowledge about the entry mode decision making process. The secondary data was collected from the case company website and the annual reports.

Data interpretation is the process of analyzing the data by modeling and transforming the data into a systematic information which could explain the findings of the study. Data analysis includes coding, editing and data entry activity that ensures the accuracy by converting them from raw form to classified form which is appropriate for the analysis.

### 3.4. Validity and Reliability

Validity refers to find out how well the data is related to the study as it suggests truthfulness and how well an idea fits with actual reality. "It refers to the issue of whether or not an indicator that is devised to gauge a concept really measures that concept" (Bryman & Bell 2007:165). Validity evaluates whether the research findings are true and how well they correspond to what happened in reality. According to Bryman and Bell (2007:410) there are three types of validity which are constructing, internal and external validity. Construct validity refers to the application of accurate operational measures for the concepts that is being studied. Internal validity brings out how the theories and operationalized definitions are connects with each other. External validity deals with finding out whether the findings of the research study can be generalized.

The indication of this case study comes from sources like case company's website information and personal interview with the respondent. During the interview the information was recorded and the questions were explained clearly to make the interviewee to understand the purpose of the study. In some situations the interviewer repeated the questions and as well as requested the interviewee to repeat the answers to retain them in trail. As the purpose of the study is to make qualitative research this case cannot be generalized as statistical information.

Reliability refers to how well the findings are reliable in different occasions for different researchers. Reliability means the research instrument produce the neutral data on each occasion that is being used or investigated. "Dealing with reliability is to allow the other investigator to repeat an earlier case study is the need to document the procedures followed in the earlier case" (Yin 1994:36). Reliability confirms the accuracy and consistency of the data when it is being

used by various investigators by giving identical results. According to Bryman Bell (2007:41) "reliability term is commonly used in relation to the question whether or not the measures that are devised for concepts in business and management are consistent". Reliability of measurement concerns the accuracy of the measurement system. It means that the same results are obtained if it keeps measuring the same thing. Accuracy of type is about the reliability of the instrument used to collect data. That means, if it measures the same thing with other instruments, the same results are obtained, except if the instrument used to provide a unique view of the problem. Finally, consistency represents the role of each question of the test. It is reached when each question asked includes a small version of the whole measuring problem.

The data was gathered by direct interview and from this reliability of the study can be proved. To tackle the practical difficulties the interview guide was sent to the respondent before the interview so that the respondent could be prepared with all the necessary information. The interview was conducted with one interviewee from the case company and the interview lasted for ninety minutes. Due to the limitation of this study the interviewer was able to interview only one respondent. The information gathered through this study is based on the experience and knowledge of the respondent who belongs to the case company. The interviewee has been working with the case company for a quite long time. The interviewee had a sound knowledge about the entry mode decision making process as the interviewee works with the concern department and the interviewee was very enthusiastic in providing the information about the case. The study is based on the situations experienced by the interviewee and the results of the study is also based on the interpretation of the author so the results may differ if another person from the entry mode decision making would respond.

## 4. EMPIRICAL FINDINGS

This chapter is focused on to discuss the findings of the research study. The main aim of this study is to explore the entry mode decision making process of a foreign firm in a new market with special emphasize on emerging markets. Moreover, the study further explores strategies, types and approaches of market entry decision making process. In this chapter firstly the case company is explained which is followed by the analysis of the empirical findings. The analysis is based on the interview with the case company Vacon Oy.

### 4.1. Introduction to the case company

Vacon is a global company which manufactures variable speed ac drives. It is the largest producer of AC drives in the world in terms of revenue. Vacon is originally from Finland and it started its operations in 1993 by 13 key employees of ABB who worked in its Vaasa factory. The headquarters of Vacon Oy is located in Vaasa besides they also have offices in Vaanta and Tampere in Finland. Vacon launched its first subsidiaries in Sweden and Germany later on Vacon extended its subsidiaries to other countries such as Spain, Poland, Norway, France, Belgium, Austria and United Kingdom. Vacon also expanded its business territories rapidly in different parts of the world later. As of now Vacon Oy has twenty seven subsidiaries and it has its operations in almost all the continents.

Vacon's strategic area of expertise includes a common hardware and software platform for AC drives, product portfolio management, customer relationship management, mass customization and global sourcing. Vacon's AC drives are used extensively in almost all sectors of the industry and society around the

world. Typical customer business sectors include machine builders, mining, renewable energy generation, construction engineering, marine and offshore industry, and water treatment.

#### 4.2. Market and need identification

The first stage in the market entry process is to identify the need to enter in to a market and as well as to identify the need to enter in to a particular market. In case of our case company they have a strong global presence and they are rapidly expanding their operations globally. The interviewee was asked to describe their international operations the interviewee described their international operations as follows.

*“We have 27 subsidiaries and covers quite big part of the world. In the countries where we are not present we have partners. We cover almost 90% of markets. Some place we are weaker and some we are stronger. Generally in the subsidiaries we have lot of market potential. We are very international in our sales, factories and purchasing”.*

The interviewee was asked to describe their motivation to enter in a new market. It has been found from the interviewee market potential, long-term profit potential, stability of the environment and business friendly environment are the biggest motivation for their organization to enter in new market. The interviewee pointed out their organizations motive to enter new market as follows.

*“We see the big market potential and business possibilities that interest us. Business possibilities to capture the market. Generally if we enter new market for example emerging markets there are two ways generally there is somebody who wants to present us or we are looking for a partner. If we see a market is potential than we would start to work for that. In many*

*cases we are being contacted by a partner who wants to present our offering in that market”.*

The case company is motivated to enter new markets as they are attracted towards the size of the market, and market potential in the new markets. The interviewee pointed out the case company’s motivation to enter foreign market as follows.

*“For example we can take a case of Myanmar it is being taken by the neighboring countries now don’t see there at the moment potential but there is a partner who want to sell our drives they looked at us somewhere and contacted us. That’s how we are motivated to do business”.*

Emerging markets like India and Brazil have created a huge interest with the case company as the emerging markets offers huge opportunity. The interviewee explained their motivation to enter in to emerging markets like India as follows.

*“Size is the biggest motivation to enter in to Indian market. We can have up to 40 million businesses in Indian market, As the population is big we can also add more services as there is already available resources. In many countries we look for the future where we try to add value in that market which could be beneficial for the nearer region and also for other companies”.*

The interviewees also pointed out their pre-market idea and according to the market potential their organization decide to enter in to certain market. If the market is big the company has a clear motive to enter in certain form in case of if the market potential is less probably they would not be interested to enter in to that particular market. However, in those cases the case company is being contacted by the partners from those countries where the potential is less and that way they decide to get in to those markets. Here the interviewee described the premarket idea as follows.

*“According to the market potential sometimes our company enters to a new market or they are being contacted by the partners. In the smaller markets we are being contacted of course if the market potential is big we look forward ourselves how to go further. In the premarket idea we always look for the market studies and we see a potentially big countries we enter ourselves. We see the potential in a market worth of certain percentage”.*

#### 4.3. Market entry and entry mode data collection stage

When the company identifies its need to enter in to a particular market then begins the data collection. Data collection has a huge impact in the entry mode decision making process. The data collection to enter in to a particular market and also to decide the mode of entry the role of data is significant. The interviewees were asked about the data that are collected to choose a market and a particular mode. The case company when they enter a market they usually hire the consultants and study the market about their industry or product segment. Besides the factors such as risk factor, taxation, stability of the country were also given equal importance to consider a particular market and as well as the particular entry mode.

*“When we want to extend to new country it is always the market study of drive business. Generally we hire consultants to do market study based on our requirement than we compare the match, we look on channels, strengths and we look the need. Based on market study we also do business plan how to enter where to we make forecast what is our revenue in the first years we focus on volume and we have targets for years. The business plan will say if it is possible or not and then finally it is approved by the board. The regional sales managers are responsible to make the study on how to enter then market study and business plan sales management and then to the board who makes the final decision this is in case of company if it is otherwise the sales management makes the decisions”.*

The interviewee was asked to explain the types of data that was collected before market entry and entry mode decision making and the interviewee responded as follows.

*“Market share, big divided by power channel segments customers who are the big competitors demographics, risk issues, economic issues, bureaucracy, and bribery issues everything is analyzed”.*

The interviewee further explained about the internal and external information that are used to consider the entry mode decision making process as follows.

*“External is based on survey not 100% sure market study is external information also we get information from the manufacturer we cannot go with external blindly as it may go sometimes wrong if we make market study with consultant who do directly than we rely as it become internal in a way that we select them to do for us on it, study done by our partners, our experience, based on area sales based on combination no 100% external or internal. If it is not clear we go for more information”.*

Data collection helps the company to formulate the business plan. The business plan is very important in market entry and entry mode decision making process. The business contains all the information regarding the market such as industry report, competitor information, social environment, political environment, economic environment, taxation, distribution network, channels, and various other information related to the market. The business plan is presented to the board and the board finalizes the entry mode decision. It is also found from the interviewee that business plan major part which is the strategy for a country.

#### 4.4. Entry mode decision making stage

After collecting the data and formulating the business plan the case company enters in to decision making stage. Entry mode decision making process plays a key role before a company enters in to a market. The interviewee was asked to explain the decision making process to entry mode choice in the new market. According to the interviewee the case company's market entry and entry mode decision making process is initiated by the area sales department. The area sales department is divided in to continent wise and region wise department which is responsible to bring revenues or maximize their revenue from their respective areas and they look for the potential opportunity in different parts of the world.

The area sales department looks for the partners usually in the markets which has huge potential the company start their entry with area sales partner than they appoint their own representative and when the market is developed the company establish its own subsidiary. It is also interesting to found from the case company they do not have joint venture as the entry option in their business markets. The interviewee described the decision making process as follows.

*"We have area sales department which is located in Vaasa. The area sales department is the one which first looks for the opportunity in the markets and it is the first step. Then we have a partner generally the area sales takes care of the partnership. We go with area sales partner then our own representative and then our own company. Generally we don't go for joint ventures".*

In the recent scenario emerging markets has become very important for the companies to do business. The emerging markets have huge potential for the companies to grow. Our case company has its business in the emerging markets

and the interviewee was asked to explain the entry mode decision making in the emerging markets such as India and Brazil. The interviewee explained the cases of emerging markets such as Brazil and India as follows.

*“In India we have sales subsidiaries at the moment. At first we had area sales and we had distribution partner than we created our subsidiary. We are doing lot of added values in Indian market. In the emerging markets like India and Brazil the price level is low and the taxes are there we always have to add value to be competitive”.*

*“Brazil started with partners with area sales there were partner possibilities. Our area sale was active in the Brazil market looking for partners or getting in touch with the right partners. Creating that partners then we had sales then the sales got bigger than we have to concentrate more. We had sales distributors in Brazil at first then we recently expanded as subsidiary”.*

According to the interviewee emerging markets are very important for the case company. The case company entered in to Indian market with partnership with the local firm in India. As Indian market is big and has a huge potential it had a distribution partner than it had its own representative. As the market is growing the company decided to have its own sales subsidiary. As per the interviewee the company has lot of value added service in order to be competitive in the market and they are constantly updating their services. The case company's experience with Brazil is also similar to that of Indian market. The case company entered in to Brazil by having sales distributorship as the market was growing the company decided to establish its own subsidiary.

As per the observation it is clear that the strategy of case company's entry mode decision making is a systematic process and there is huge connection between the market potential and the mode of entry. If the market is big like India or Brazil the case company has a clear decision to have their subsidiary as it has good growth and long term profitability. If the market is small the case

company's mode of entry differs they are interested to have a partnership with a local firm in that particular market. In the smaller markets the case company goes for its subsidiary after observing the performance of their business in that particular market. The interviewee explained the case of Danish market which is considerably smaller when compared with bigger emerging markets as follows.

*“For example the case of Denmark a year ago we had partners and we took the key people from the partner with mutual understanding and they build the subsidiary because they know the partners contacts etc. In many cases we are partnering with somebody when we see the potential we use the existing partners to build subsidiary or we buy the partners or we take the part of the partners and make a new company we have the existing organization with knowledge then we start hiring people”.*

In the decision making process market research has a greater role. As per the interviewee when their company wants to enter in to a market they appoint a consultant to do a market study on a market where they intend to enter. The market study gives them required information to decide on where, when and how to enter in that particular market. Based on the market study and their internal information the area sales department prepares a business plan for entering a market. The business plan includes all the information about the market such as mode of entry, competitor's information, taxation, legal aspects, economic environment, social and cultural environment and political stability etc. The business plan is presented to the board which decides or approve the business plan of the area sales department to enter and as well as to decide the choice of entry mode in a market.

During the decision making process the business plan is analyzed to make a decision to enter in to market and to choose a particular mode of entry. It has been found from the interviewee that it is always the board which makes the decision making process in choosing a particular market and particular mode of

entry if the market is big. The board based on the business plan tend to involve in the decision making process. Moreover, the interviewee also explained the decisions are not taken just randomly and it always based on facts and financial figures. However, in case of smaller markets the area sales management takes decision regarding the entry mode such as sales partnership.

The interviewee was asked to respond the decision criteria to choose particular market and as well to choose particular entry mode. The case company's decision criterion is based on analyzing the risk that is associated with the market to choose particular market. The case company before deciding a particular mode of entry in a market they conduct an exclusive market study where they learn about various aspects of market.

*“In the decision criteria we look for risks. When we select a market we do market study what are the possibilities, what is the structure, market size, who is our competitor, what are the channels that are available and how that matches our portfolio and offering what is our strength. The decision criteria is based on the how big is the market and the entry mode depend upon it. If the market is small we enter through partners by area sales and if the market is big and potential than we go for our own representative or building up our own subsidiary”.*

It is clear from the interviewee's point of view that the main decision criteria in decision making stage is to avoid risk. Here it is concluded that the case company's decision making is based on 'avoidance mode' of strategic decision making. The case company's decisions are based on to avoid risk and uncertainty in their entry mode decision making. Maintaining the status quo is the objective of the case company in entry mode decision making process. Moreover, the complexity and time pressure is low for the case company as per the avoidance mode.

The interviewee was asked which entry mode dominates their choice of entry mode to enter in new market. It has been found from the interview the company enters its major markets through area sales partnership then it gradually appoints its own representative and then establishes its own subsidiary. It was also found that the company prefers its own representative in all the markets rather than a joint venture.

*“The entry mode which we always prefer is our own representative. If the market is big we can go for our own company. If the market is small and important than we go for representative. It is always balance of making a decision with finances. We don’t have joint ventures all of them or sales subsidiaries and many countries we have partners where we don’t have subsidiaries”.*

Moreover, the interviewee also expressed that at present whichever the market they enter they go for their own subsidiary. When the interviewee was asked about the alternatives in considering the different entry modes it has been found that they consider very little options.

*“We have only two options partner rep or subsidiary if we go somewhere we go on our own name, our own brand nothing else. It also depend upon the money if we don’t get certain amount of money than we don’t go for it”.*

Further the Interviewee was asked about the alternatives that were considered for Indian market and the case company was very clear right from the beginning to have their subsidiary and they were not considering any other entry modes as the market was big and have huge potential.

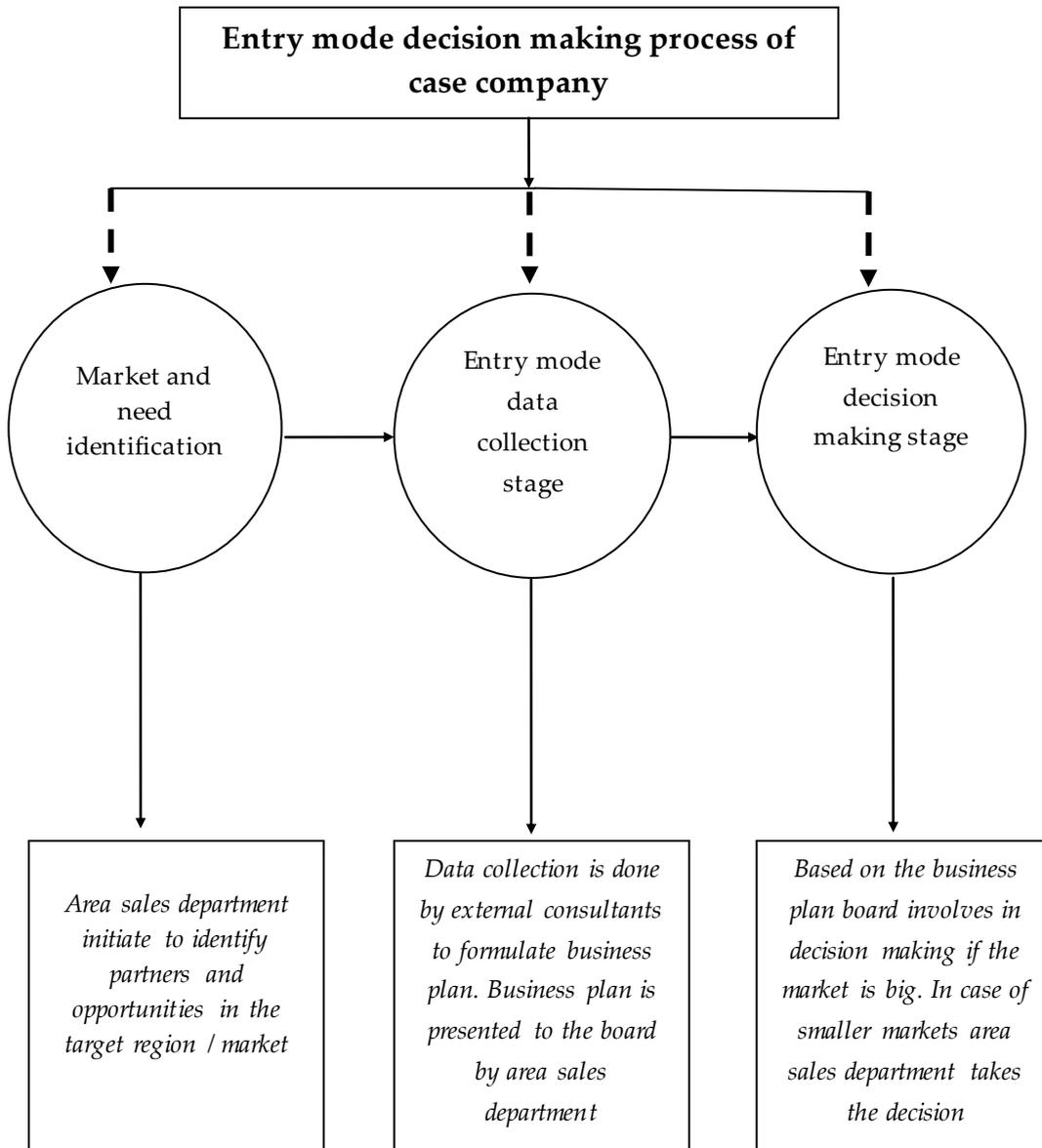
The interviewee was asked about the time frame that is taken to finalize the decision making process to choose a particular market and entry mode. The interviewee responded that the time limit of decision making process depends

upon the size of the market. The bigger the market the time is lesser and the smaller the market it takes longer. The interviewee explained it as follows.

*“If we decide to go to a country it is always 2 to 6 months before we call the management consultant to do market survey and it is done in a month time, then we do a business plan out of it in a couple of months then we present it to the board in the fastest times we can do it in two months. The bigger the market the faster is the decision because you see the potential there the smaller the importance is less and different ways of doing it or we even consider to the subsidiaries which are based on the nearer countries”.*

The interviewee was asked about the evaluation of entry mode performance. The entry mode performance was evaluated based on the plan which was made by the case company. The interviewee explained the success factors which gives credibility when entering the emerging markets. According to the interviewee hiring the right people is the major success factor when entering the emerging markets. Other than that establishing the right channels and the products that are right for the emerging markets are also considered as other success factors when entering the emerging markets. The following diagram explains the entry mode decision making process of the firm.

**Figure 3.** Case company's entry mode decision making



## 5. SUMMARY AND CONCLUSION

This chapter describes the theoretical aspects of the study and also it concludes the empirical findings of entry mode decision making process in internationalizing of a firm. Moreover, this chapter also describes the managerial implications and suggestions for further research from this present study.

### 5.1. Summary

The main objective of the study is to explore the entry mode decision making process of a foreign firm in a new market with special emphasize on emerging markets. In order to explore the main objective of the study the following sub questions are set which are (1) to find out the types of strategic decision processes, (2) to identify the approaches in decision making process, and (3) to find out the stages in decision making process. The first chapter of this study explains the above mentioned objectives and sub questions. Moreover, this chapter also explains the structure of the study.

The empirical findings reveal that the answer to the first sub objective the types of strategic decision processes. As per the findings the case company's strategic decision process is based on the market potential and it can be considered that the case company follows two types of strategic decision making processes in entry mode. First, if the case company enters in to bigger market which has huge market potential their entry mode is based on by having a partnership with the local firm. The case company gradually appoints its own representative and when the business grows the company establishes its own

subsidiary. Second, in case of smaller markets which has less market potential the case company decides to enter in to the market by having only partnership with the local firm. However, the case company's recent strategy is that wherever they enter they establish their own subsidiary.

The empirical findings reveal the answer to the second sub objective to identify the approaches in entry mode decision making process. As per the findings the case company's approach in entry mode decision making is based on to avoid risk in the market and in entry mode. From this it can be considered that firms approach is based on avoidance mode in which maintaining status quo may be its objective.

The empirical findings reveal the answer to the third sub objective to find out the stages in decision making process. As per the findings the case companies decision making has three stages. First stage is to identify the need and market, second stage is data collection and third stage is decision making stage. In the first stage the case company through its area sales department identifies the potential market to enter. In the second stage the area sales department uses the external consultants to collect the data regarding the market and entry mode to prepare the business plan. The third stage is decision stage where the business plan is presented to the board which makes the final decision regarding the market entry and entry mode. In case of smaller markets the area sales department makes the final decision.

## 5.2. Conclusion

The objective of this study is to explore the entry mode decision making process in internationalizing of a firm in a new market with special emphasize on

emerging markets. In order to achieve the objective the data was collected from the case company Vacon Oy. The case company is Finnish company which has its presence globally. Based on the empirical evidence it can be concluded that the theoretical framework of the study and the empirical results are relevant.

According to the previous studies conducted by authors such as Kumar and Subramaniam (1997), Root (1994), and Beach and Mitchell (1978) the market entry and entry mode decision making process of a firm consists of following stages such as (A) Identifying the need to enter in to foreign market, (B) Assessment of external influential factors, (C) Assessment of internal influential factors, (D) Selection of decision strategy, (E) Data collection and information processing and (F) Selection of mode of entry. Whereas, the decision making process of the case company in practice vary from the above mentioned studies. Based on the empirical evidence the entry mode decision making process of the case company is divided in to three stages which are (A) Identifying the need to enter in to a new market, (B) Entry mode data collection, and (3) Entry mode decision making stage.

In the decision making process of the case company the first stage is to identify the need to enter in to market and also to identify certain market from a particular region. As per the decision making process which is mentioned in the literature review identification of the need to enter in to foreign market is the first stage and it applies the same with the case company also. As per the study results the case companies motivation to enter new markets are market potential, long term profitability, stability of the environment and business friendly environment are the biggest motivation to enter in to a new market.

The market entry and mode of entry decision making consists of serious processes. The area sales department is the one which is responsible for the

entry mode decision making process. The area sales department expands their business operation at their assigned areas and they look for potential markets. In the markets those have been identified by the area sales department they try to look for partners who are well aware of the local market and its tradition. As per the interviewee in many cases their company has been contacted by the partners from the foreign markets. The company's strategy is to enter in to a foreign market by having partnership with the local firm. When the business gets bigger the company appoints its own representative and gradually the company establishes its own subsidiary in that particular market.

As per the empirical findings data collection has a huge significance in the market entry and entry mode decision making. As per the interviewee the data collection is done by the external consultants. Before the decision making process these consultants do an extensive research and collect the data regarding the market information, competitors information, distribution network, sales channel, taxation, social, economic, political environments and various other information's related to the market. The data collected is helpful for the area sales department to create a business plan. The business plan is important one which is presented to the board and the business plan consists of all the figures and facts which guide the company to enter in to a new market. Finally after evaluating the feasibility of the plan the board decides the mode of entry to enter in to a foreign market.

From the data collection stage it can be considered that the empirical findings and the stages of decision making process mentioned in the literature review such as data collection and information processing are relevant. However, the stages such as analysis of external and internal factors mentioned in the literature are analyzed during the formulation of business plan using the collected data.

The third stage of entry mode decision making process is decision making stage. The decision regarding the mode of entry greatly depends according to the market potential. The case company uses its business plan in the decision making stage. The decision making is done by the board regarding the market entry and the mode of entry if the market is considered as big and potential. In case of smaller markets the area sales department takes the final decision. It is also found from the study that if the market is bigger and significant the case company is always interested to have its own subsidiary. In case of the smaller markets the case company enters by having partnership. In the recent years the company has decided to enter the markets by its own subsidiary. It is also interesting to found that the company does not enter in to markets by joint venture and the case company wants to have its own brand in all the markets. Moreover, if the markets are small that market is taken care by the subsidiary which is closer to that market.

From the empirical results it was also found that the case company entered in to emerging markets such as Brazil and India with partnership and when the markets started growing the company appointed its own representative. Later on to be competitive and to capture the market share the case company decided to establish its own subsidiary in these markets. The case company has a huge interest in these markets as the markets are big and there is huge potential for long-term profitability and growth.

From the empirical results it was also found that the case company's decision criterion is based on analyzing the risk that is associated with the market to choose particular market and particular mode of entry. It is evident from this mode that the case company's decision mode is based on avoidance mode in which maintaining the status quo is the objective. According to this mode the decisions are based on to avoid risk and uncertainties in the decision making

process. In this mode decision making leads resistance to change where complexity and time pressure is low. From this it can be concluded that the case company's mode of decision is based on 'avoidance mode'.

It was also found from the empirical results that the options for considering the choice of entry mode to enter in to a market are limited. The case company either enters in to market with sales partnership or by establishing its own subsidiary. The most preferred entry mode of case company is to have its own representative in the foreign market. The interviewee also explained that the entry mode performance is evaluated based on the business plan. As per the interviewee hiring the right people, establishing the right products and channels are the success factors when entering the new market.

### 5.3. Managerial implication

The empirical finding of the study implies that case company is expanding its business globally. As the case company is one of the frontrunners in its business segment it has huge potential to be global leader. The case company has a clear strategy to enter the new markets by its original brand and therefore, the company is not interested to any other entry mode options such as joint venture, licensing and so on.

As new markets are being identified in its portfolio the case company has a huge growth in its product segment. According to the findings the case company in the recent times has single mode of entry to enter in to new markets that is the company enters in a new market with its own representatives and gradually establishes its own subsidiary. Entering in a new market by other modes such as joint venture or licensing may give better results in the new

markets that are seems to be challenging for growth. Moreover, mode combination or combination of modes could very well be the best alternative that the firm can consider in entering emerging markets. The alternative entry mode may reduce the risks of the case company in the new markets.

#### 5.4. Suggestions for further research

The entry mode decision making processes of a firm in internationalization derived from this study are suggested for further research. The future expansion of the case company Vacon Oy will be an interesting one to learn to understand the future strategies that may be applied in entering the new market. The study has presented the general view of case company's decision making process. In depth analysis of case company's decision making process based on a single market or region can give a broader outlook of entry mode decision making process of a firm in internationalizing.

This study has been presented from a single view point and it could be deepen by analyzing in multiple views. This study could be further explored as a collective learning of a single firm by analyzing the decision making process of the case company in all the regions where it operates. Moreover, analyzing the cases of multiple firm strategies may reveal more information about the different firm's strategies in different regions and markets. Overall, different areas of entry mode decision making process could be analyzed and studied further as learnt from this study.

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## **APPENDIX 1:**

### **Interview format and questionnaire:**

#### **Details of the company**

Name of the company -

Type of Industry -

Name of the product / Service -

Name of the person interviewed -

Designation of the person interviewed -

Educational qualification of the Interviewed person -

Date -

1. Could you please explain about the international operations of your company?
2. What motivates you to enter in to new markets / emerging markets and what is your pre market idea about that target country?
3. How did the decision making process to enter in to a new market take place usually with your company?
4. Who is involved in the entry mode decision making process and how many people actively participated in the process? Who was the final decision maker in the decision making process?

5. What kind of strategies were adopted in decision making to tackle issues such as avoiding risk, learning about the market gradually, analyzing the alternatives systematically, shifting the choices and influence of participants?
6. How long did the decision making process take place? Did you have any target time limit to finalize the decision making to enter in to a new market?
7. What kind of data was collected before deciding to enter a new market or while choosing this particular mode of market entry?
8. What were the alternatives that were available while considering the market entry modes?
9. What kind of factors that were considered during the market entry decision making process?
10. What were the main aim or selection criteria in choosing certain mode of entry?
11. Which entry mode dominates your company's decision that has been widely used with your company's operations abroad?
12. Could you please explain your previous experiences of decision making process in entering in to a particular emerging market?
13. How the performance of entry mode decision is evaluated?
14. What are the success factors which gives credibility when entering the emerging markets? Is your decision to enter in to emerging markets were successful?
15. What do you think as a main challenge during the decision making process to enter in to emerging markets?