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Optimizing International Market Selection: A Dynamic Approach Integrating Export and FDI Entry Modes

Yueling Zhou[1] | Emanuel Gomes[2] | Ferran Vendrell-Herrero[3,4]

[1]School of Business and Economics, Vrije Universiteit Amsterdam, Amsterdam, the Netherlands | [2]Nova School of Business and Economics, Univerisdade Nova de Lisboa, Carcavelos, Portugal | [3]Strategy Group, University of Edinburgh, Edinburgh, UK | [4]Strategic Business Development, University of Vaasa, Vaasa, Finland

Correspondence: Yueling Zhou (y.zhou2@vu.nl)

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ABSTRACT

Effectively evaluating and selecting foreign markets is essential for successful internationalization. Traditional International Market Selection (IMS) frameworks typically follow a linear, sequential process: identifying motives, selecting markets, and subsequently determining entry modes. However, such sequential frameworks inadequately account for today's dynamic global market conditions, often resulting in firms entering appropriate markets via an unsuitable entry mode—termed herein as Type III error. Addressing this dangerous error, our study proposes a novel IMS approach that simultaneously integrates market attractiveness and considerations of the suitability of the entry mode selected. Using a dual-criteria ranking method combined with a 45° line analysis, we evaluate 86 prospective international markets across 30 variables. This approach enables firms to align market selection and entry mode decisions from the outset and responds directly to recent research emphasizing their interdependent nature. Our findings reveal that not all markets are analogous, that is, equally attractive for export and FDI, and that some markets are quite distinct, requiring specific entry modes. By adopting this integrated, flexible framework, firms can make more nuanced, strategically coherent internationalization decisions, minimizing risks associated with entry mode misalignment and enhancing their global strategic effectiveness.

1 | Introduction and Motivation for the Study

The ability to evaluate and select foreign markets effectively is crucial for companies expanding internationally. Whether small firms venturing into international territories for the first time or large multinationals enhancing their global footprint, companies pursue international markets for various reasons, including market-seeking, efficiency-seeking, and resource-seeking (Dunning 1993). International Market Selection (IMS) plays a vital role in this process, helping firms to evaluate market attractiveness and identify high-potential opportunities (Sousa and Lages 2011).

Over the years, a rich body of research has developed systematic methodologies for IMS (e.g., Andersen and Buvik 2002; Cavusgil et al. 2004; He and Wei 2011; Kumar et al. 1994; Papadopoulos et al. 2002; Robertson and Wood 2001; Westhead et al. 2002). These widely used methodologies typically guide firms through sequential phases: identifying the motives for internationalization, evaluating and selecting foreign markets, and subsequently choosing the most suitable entry mode (see Cavusgil et al. 2004 for a detailed step-by-step analysis, see also Kumar et al. 1994; Papadopoulos and Denis 1988; Papadopoulos and Martín 2011). These classic approaches are grounded in theories like the Uppsala model of incremental internationalization (Johanson

and Vahlne 1977) and are well suited to relatively stable market conditions. For instance, exporting is often accepted as the default entry mode for SMEs driven by market-seeking motives, while more experienced multinational companies may favor FDI to achieve efficiency or access resources (Benito 2015).

The dynamic nature of today's global markets challenges traditional, sequential IMS frameworks. Firms operate within intricate decision-making environments shaped by sudden disruptions and unique opportunities (Santangelo and Meyer 2017; Schweizer and Vahlne 2022). The internationalization process is increasingly tailored to individual firms, influenced by their capabilities, development stages, and external circumstances (Verbeke et al. 2009; Békés et al. 2021). This complexity calls for a more flexible and integrated approach to IMS and entry mode selection. Moreover, sequential IMS frameworks typically prioritize market selection as comparatively separate from other phases, such as entry modes. Recent research by Leiblein et al. (2022) reveals strong associations between entry mode choices and foreign market selection, demonstrating that the factors influencing these decisions are interconnected. Their findings suggest that governance choice can affect location selection, and vice versa, raising a call for further research on the timing and sequencing of these decisions to identify conditions under which one sequence might be more effective than another.

A critical limitation of current IMS models resides in their implicit assumption that firms must define their entry mode (e.g., exports or FDI) either before or only after screening potential markets. This creates a "chicken-and-egg" dilemma: should firms select the target market first, based on a predetermined entry mode aligned with their internationalization motive (market-seeking, efficiency-seeking, or resource-seeking), or decide the entry mode only after selecting the target market to account for its contextual specificities? Both approaches have considerable drawbacks. Prematurely selecting an entry mode primarily based on a firm's internationalization objectives and internal conditions may result in decisions misaligned with the specificities of the target market, such as its political, economic, or sociocultural environment. Conversely, selecting a target market first without considering the entry mode risks relying on screening variables that favor one mode over another, potentially overlooking markets that may be better suited to alternative entry modes. For instance, export-oriented screening criteria such as market size, growth rate, and trade openness may identify markets ideal for exports but unsuitable for FDI. Similarly, FDI-focused criteria such as political stability, ease of doing business, and country risk might yield rankings that favor FDI but neglect export opportunities.

Misalignment between target market selection and entry mode can thus lead to a costly strategic error, which we label as Type III error. Existing IMS frameworks (e.g., Cavusgil et al. 2004; Gaston-Breton and Martín 2011) focus primarily on mitigating two types of errors when assessing international opportunities: Type I errors, which involve selecting the wrong market, and Type II errors, which involve failing to enter the right market. However, these frameworks overlook Type III errors: entering the right market with the wrong entry mode. The importance of this error arises from the assumption in previous research that markets are *analogous* in terms of suitable entry modes; namely, if a market is deemed appropriate, entry modes such as export and FDI are assumed to be potentially viable. The key hypothesis of this study is that not all markets are analogous; rather, some markets are *distinct* and require specific entry modes, and selecting an inappropriate mode in such markets constitutes a Type III error.

To avoid the occurrence of a Type III error, we propose a novel IMS approach that, while primarily centered on identifying an attractive target market, integrates target market selection and entry mode considerations from the outset. By adopting a parallel rather than sequential approach, our framework enables firms to evaluate market attractiveness and entry mode suitability simultaneously. This integrated process ensures that firms use a balanced set of variables during the initial country screening process, encompassing both export- and FDI-related factors to identify markets that align with their strategic objectives.

Our empirical analysis illustrates this approach using data from 86 prospective markets and 30 variables. We focus on categories of entry modes—exports and FDI—highlighting how different variables influence market screening outcomes. For exports, variables include market size, receptivity, and openness to trade (Robertson and Wood 2001), while FDI variables are country risk, political stability, commercial infrastructure, and ease of doing business, among others (O'Farrell and Wood 1994). The selection of export-related or FDI-related variables will have a strong impact on the results of the market screening and influence the final market selection. Our proposed methodology requires the use of both types of variables (export and FDI) as a way to resolve the entry-mode/target-market dilemma and to demonstrate the existence of distinct markets and Type III error.

This study makes two valuable contributions. First, it addresses the limitations of traditional, sequential approaches by proposing an integrated model that enables firms to evaluate market attractiveness and entry modes simultaneously. In doing so, it challenges the conventional separation between market selection and entry mode decisions (e.g., Cavusgil et al. 2004; Gaston-Breton and Martín 2011). This aligns with Leiblein et al. (2022), who raise an important question: do firms choose a location first and then determine governance, decide on governance before selecting a location, or make both decisions simultaneously ? Building on this, our study responds to the call for further research on the timing and sequencing of these decisions, identifying conditions under which one sequence might be more effective than another. By proposing a model that enables firms to assess both target markets and entry modes concurrently, this study directly addresses this gap and helps resolve the dilemma highlighted by Leiblein et al. (2022).

More broadly, this study contributes to the internationalization research by introducing a contingent model that transcends the rigidity of static, sequential methodologies commonly found in the literature (e.g., Cavusgil et al. 2004; Gaston-Breton and Martín 2011). Recognizing that international expansion is highly context-dependent—shaped by unique opportunities, developmental stages, and organizational capabilities (Verbeke et al. 2009; Békés et al. 2021) – our proposed methodology offers a flexible, iterative approach. By moving beyond rigid decision sequences, the proposed framework enhances firms'

adaptability and strategic coherence, thereby better equipping them to navigate the complexities of global markets.

Second, by applying this framework, we identify the existence of Type III errors. Our evidence demonstrates that not all markets are analogous; certain "distinct" markets may be attractive but suitable for only one specific entry mode. This finding highlights the limitations of previous assumptions within the framework, emphasizing an additional layer of complexity in decision-making. Managers must account for this nuance to ensure more effective strategies when expanding internationally.

In the following section, we review the main literature and methodologies in the study of IMS, the drawbacks in those methodologies, and provide further clarifications of the rationale for our research. Following that, we present our methodology and describe the data. Subsequently, we present the analysis and results, elaborating on how markets in our sample differed based on the varying attractiveness of entry modes. Finally, we discuss the main implications, limitations, and directions for further studies.

2 | Background Literature and Research Gap

Academic research on International Market Selection is predominantly grounded in Dunning's OLI paradigm (Dunning 1993) and the Resource-Based View (Barney 1991). Traditionally, broader internationalization theory has been driven by the Uppsala model, which is based on behavioral economics theory (Cuervo-Cazurra et al. 2015). In recent years, there has been a growing trend to update the classic Uppsala model as it has struggled to provide a theoretical framework for the nonlinear and abrupt changes observed in the dynamics of the internationalization process over time (Santangelo and Meyer 2017; Schweizer and Vahlne 2022). These studies describe the need to incorporate more innovative and dynamic perspectives on internationalization. Similarly, in the context of IMS as part of internationalization, scholars have worked to optimize the IMS process. This evolution has moved from case-based qualitative methods to more systematic approaches using quantitative methods (Papadopoulos and Denis 1988). More recently, there has been a shift toward an integrated approach that combines both qualitative and quantitative methods (e.g., Gripsrud and Benito 2005). This new methodology aims to be systematic while also accommodating the unique aspects of specific companies. Below, we first review the theories that have shaped the development of IMS research. Thereafter, we discuss the methodologies employed in IMS research. We then identify gaps in IMS research and pose our research questions.

2.1 | Key Underpinning Theories

The IMS literature has drawn fundamentally on several international business theories, one of the most inspirational being the Dunning's OLI paradigm. This concept has profoundly influenced IMS literature by offering a structured framework to explain why firms prioritize certain markets and entry modes. Its focus on Ownership advantages (firm-specific resources), Location advantages (country-specific factors like economic conditions or cultural fit), and Internalization advantages (control over operations to reduce transaction costs) helps firms evaluate market and entry mode attractiveness systematically. By linking firm capabilities with host-country characteristics, the paradigm has guided IMS research on market prioritization. Other scholars have used the framework to advance the IMS literature. Research findings have shown that Dunning's OLI framework is instrumental in predicting company performance during the IMS process (Brouthers et al. 2009).

Because of the emphasis that OLI theory places on ownership advantages, several scholars have used the Resource-Based View (RBV) theory to further advance the IMS literature. For example, Kumar et al. (1994) and Westhead et al. (2002) highlighted the significant influence of resources and capabilities on a firm's business strategy when evaluating potential markets. He and Wei (2011) underscored the importance of market orientation (MO) as a critical internal firm-level resource. They aligned MO with IMS and proposed that firms with more extensive MO resources and capabilities are more likely to choose markets that are culturally distant.

In the broader internationalization literature, the well-known Uppsala model of incremental internationalization (Johanson and Vahlne 1977) suggests that firms start expanding into markets via exports, usually into markets that are "psychically close" – meaning those markets in which they have greater knowledge and easier control over resources (Dow et al. 2018). As firms gain more experience and resources, they gradually move into markets that are more distant, both geographically and psychologically. However, a strong limitation of the Uppsala model is its inability to account for the nonlinear and abrupt changes in the dynamics of the internationalization process as time progresses (Santangelo and Meyer 2017; Schweizer and Vahlne 2022).

An international expansion path is highly firm-specific (Verbeke et al. 2009) and shaped by the firm's unique opportunities, development, and capabilities (Békés et al. 2021). The emergence of technology and digitalization provides companies with greater opportunities to acquire knowledge at a lower cost, thanks to the efficient exchange of information during the early stages of their development (Lee et al. 2023). Therefore, recent studies tend to "go back to the basics"—emphasizing behavioral theory to better understand the internationalization process. Dynamism and diversity in firm behavior demand flexibility (Surdu et al. 2021), and behavioral economics focuses on the decisions taken by managers, positioning them as the primary economic actors and decision-makers in a firm's international expansion.

2.2 | Methodologies in IMS Research

Earlier IMS studies stressed the importance of adopting a systematic approach, which involves following decision-making models to make informed decisions. This emphasis is crucial because many firms, especially SMEs, tend to adopt a reactive internationalization approach in reality, often starting their international efforts by accepting unsolicited orders from foreign customers (Papadopoulos et al. 2002). Even among firms with a more proactive attitude, many rely heavily on their own experience and the intuition of decision-makers when making

internationalization decisions (Clark et al. 2018; Papadopoulos and Denis 1988). Very few SME managers are aware of the benefits of applying a systematic IMS approach to assist in decision-making and risk reduction. Nevertheless, SMEs are often constrained by limited resources, experience, and knowledge of new markets (Contractor et al. 2003), which increases the risk of failure in new international markets when decisions are based solely on subjective factors such as intuition and experience. Therefore, IMS scholars stress the importance of adopting a systematic approach in the IMS process to help firms narrow down potential countries in a less risky, more cost-efficient, and more time-efficient manner (e.g., Andersen and Buvik 2002; Cavusgil et al. 2004).

However, relying solely on systematic methods, such as generalizing the IMS process using macro-level data for market selection, is insufficient because it overlooks firm-specific characteristics. To address this limitation, scholars in IMS research have proposed frameworks that combine both quantitative and qualitative methods. Typically, the IMS process begins with an initial screening that employs quantitative methods and macro-level variables to identify high-potential markets and narrow the options to a manageable number. Next, meso- and micro-level data such as industry- and firm-specific information are incorporated to refine the analysis. Studies highlight the role of firm-level metrics such as capabilities and risk-taking attitudes in market selection (Békés et al. 2021). Additionally, qualitative insights gathered through managerial interviews provide depth to the assessment by capturing strategic considerations beyond quantitative measures (Robertson and Wood 2001).

According to quantitative IMS models, the follow-up qualitative analysis generally has two parts. First, additional micro-level variables are introduced, such as strategic priorities (Gripsrud and Benito 2005; Kumar et al. 1994), industry-specific information (Papadopoulos and Denis 1988; Sakarya et al. 2007), firm capabilities (Békés et al. 2021), and consumer segmentation (Gaston-Breton and Martín 2011). Second, qualitative methods including interviews, surveys, and questionnaires are employed in order to capture managerial insights that guide firms in selecting the final target market (e.g., Brewer 2001; Robertson and Wood 2001; Westhead et al. 2002). This research stream underscores the importance of integrating micro-level and qualitative data after the initial screening. By combining macro data, micro data, and managerial evaluations, firms can make more informed and well-rounded international market decisions.

In addition to joining micro and macro information and employing the mixed (quantitative plus qualitative) method, more recent studies have developed innovative techniques to optimize IMS models. For example, Saen (2011) proposed an advanced data envelopment analysis (DEA) model for market selection, which allows for the simultaneous consideration of dual-role factors, inaccurate data, and weight restrictions. Brouthers et al. (2009) combined Dunning's OLI model (ownership, location, and international advantages) with IMS. They applied a Multi-Layered Perceptron (MLP) network, trained through a back-propagation algorithm, to assess whether the OLI framework can predict better subsidiary performance in MNEs. Marchi et al. (2014) introduced the Fuzzy method, which employs a computing approach based on "degrees of truth" rather than the conventional binary logic of "true or false", to develope a more flexible model. The introduction of these new techniques has expanded the body of knowledge and enhanced the accuracy, flexibility, and predictive power of market selection methods.

2.3 | Research Gap and Research Questions

Though earlier studies have made substantial theoretical and methodological contributions to the IMS literature, most still treat IMS as an independent process. In response to the criticisms of the rigid sequential approach to internationalization and the calls for a more dynamic perspective (Surdu et al. 2021) some scholars have begun exploring the interconnections between IMS and other aspects of the internationalization process. For example, recent research has examined the interdependence between governance models and foreign location choices (Leiblein et al. 2022). However, few studies explicitly highlight the relationship between market selection and entry mode decisions (e.g., Andersen and Buvik 2002; Békés et al. 2021; Cavusgil et al. 2004; Kumar et al. 1994; Papadopoulos and Denis 1988). More specifically, most studies overlook entry mode considerations at the IMS stage, assume that entry mode is determined only after market selection, or default to export (primarily for market-seeking companies, mostly SMEs) or FDI (mainly for resource, efficiency seeking companies, most of which are MNEs). Little attention has been given to frameworks that consider IMS and entry mode decisions simultaneously. Table 1 summarizes the representative studies in IMS, highlighting whether or not they consider entry mode within the IMS process.

Regarding IMS and entry mode to be sequential decisions suggests that earlier research has often prioritized market selection in the IMS process under the assumption that all the markets are analogous, that is, equally suitable for various types of entry modes. For instance, a company might routinely apply a familiar approach to internationalization, such as greenfield investment, regardless of the chosen location. Thus, once a market is selected, the company will implement a greenfield investment there. In other instances, companies may select a market first and then determine the entry mode, operating under the presumption that the chosen market is the most suitable, regardless of whether the approach involves exporting, FDI, or other entry modes. However, this assumption raises two key questions:

1. Are all markets truly analogous, or do they differ intrinsically?
2. If markets do differ, how can we develop an IMS framework that does not overlook the differences?

We argue that the answer to the first question is that not all markets exhibit the same attractiveness for different entry modes. In some cases, one entry mode may be far more suitable than another. This implies that a company could choose the correct market but still opt for an inappropriate entry mode, amounting to a Type III error, as illustrated in Figure 1.

This type of error happens in two ways. First, firms may rely on familiar entry modes based on past experience such as exporting or FDI, applying a one-size-fits-all entry mode across diverse markets. If the chosen market is not well suited to

TABLE 1 | Representative IMS literature.

Author(s)	Preferred entry modes to IMS	Methodology		Main idea(s)
		Review/ Conceptual	Empirical	
Papadopoulos and Denis (1988)	—	•		A systematic approach using quantitative methods for forecasting and environmental scanning is crucial in IMS.
Kumar et al. (1994)	Export		•	An interactive and dynamic IMS process that incorporates decision-makers' perspectives.
O'Farrell and Wood (1994)	Export & FDI	•		A review of major determinants of IMS
Robertson and Wood (2001)	Export		•	A combination of interviews and questionnaire data is used to identify the most important factors in the IMS process.
Brewer (2001)	—		•	Define market selection criteria through interviews with decision-makers, then use informants to identify the final market.
Westhead et al. (2002)	Export		•	Compare "micro" and "small" firms through longitudinal data based on RBV theory.
Andersen and Buvik (2002)	Export	•		Reviews systematic and non-systematic approaches, introduces a dyadic-focused relationship approach.
Papadopoulos et al. (2002)	Export		•	A trade-off model that helps companies select essential variables tailored to their specific stages.
Cavusgil et al. (2004)	Export		•	Integration of country clustering and ranking for initial foreign market selection.
Gripsrud and Benito (2005)	FDI		•	A spatial-interaction model of foreign market choice with a micro-foundation concerning human choice behavior.
Sakarya et al. (2007)	—		•	Integrates industry and customer perspectives into the macro IMS process in emerging markets.
Brouthers et al. (2009)	Export & FDI		•	Applies Dunning's OLI framework to IMS, showing its usefulness in predicting high-performing markets through neural network analysis.
Gaston-Breton and Martín (2011)	—		•	A two-stage IMS model for MNEs starts with an initial market screen using macro-level data, followed by incorporating micro-level data.
He and Wei (2011)	Export		•	Market orientation (MO) is a crucial internal resource that aligns with the IMS process. Firms with stronger MO are more apt to enter culturally distant markets.
Papadopoulos and Martín (2011)	Export & FDI	•		Highlights the complexities of IMS, reviews various perspectives, and puts forward future directions.

(Continues)

TABLE 1 | (Continued)

Author(s)	Preferred entry modes to IMS	Methodology		Main idea(s)
		Review/ Conceptual	Empirical	
Saen (2011)	Export		●	Presents an advanced Data Envelopment Analysis (DEA) model for optimizing international market selection.
Marchi et al. (2014)	—		●	A model that accommodates the decision-makers' strategy and experience while minimizing cognitive bias using the Fuzzy Evaluation System (FES).
Ozturk et al. (2015)	Export & FDI		●	The three-stage model includes determining country responsiveness for a specific industry, estimating future industry growth, and incorporating an industry-relevant aggregate measure.
Clark et al. (2018)	—		●	Explores the impact of country familiarity on managers' decision-making in early foreign market selection, revealing an inverted U-shaped relationship.
Katsikeas et al. (2019)	Export & FDI	●		Opportunities and challenges for IMS in the digital era
Mersland et al. (2020)	Export		●	A hybrid approach to international market selection for social enterprises based on the macroeconomic conditions of host countries
Békés et al. (2021)	Export/FDI		●	A new IMS framework focuses on two dimensions: the extent of a firm's international operations and its boldness in risky market-mode combinations.
Leiblein et al. (2022)	FDI		●	The mutual influence of governance mode and foreign location choices in international business.

the entry mode the company is accustomed to, the misalignment can impair performance. Second, companies that overlook entry mode during the IMS process and consider it only after selecting a location (thereby following the traditional sequential approach of classic internationalization theory) risk making a suboptimal choice. This approach prevents decision-makers from properly screening and evaluating markets using criteria tailored to specific entry modes, increasing the likelihood of a mismatch.

Consider the case of Home Depot's entry into China, a lucrative market due to the growing middle class and rising interest in DIY home improvement projects. In 2006, Home Depot entered the Chinese market through the acquisition of local Home Way stores and attempted to transplant its U.S. big-box retail model directly. This entry mode was poorly suited to local preferences for style, materials, and functionality, and further compounded by the lack of a proper realization of the small living spaces and different home improvement needs. Consequently, Home Depot had to close its last seven stores in China in 2012, shifting its focus to specialized and online sales tailored to Chinese consumer preferences.

Another example is Disney Paris. Disney selected Paris from more than 200 potential locations based on factors such as demographics and government subsidies. This was a strong choice, not only in terms of Paris as a city but also in selecting Europe as a region. However, when the theme park opened in 1992, it faced considerable challenges. One of the main issues was Disney's inadequate understanding of European and French cultures, which led to several costly mistakes. For example, the teamwork model was not well received, resulting in a 10% employee turnover rate within the first 9 months. Disney also misread Europeans' attitudes toward theme parks, which affected visitor expectations and engagement. The entry mode chosen—wholly owned FDI—proved to be inappropriate and contributed to considerable financial losses. In hindsight, Disney might have benefited from adopting the same approach it used in Tokyo, where it licensed the park in exchange for royalties without making direct investments. Alternatively, a shared investment model with local partners, as later implemented in Hong Kong, could have mitigated risks and improved market adaptation.

These two examples illustrate that Type III errors can occur. Although China and France are excellent locations, choosing

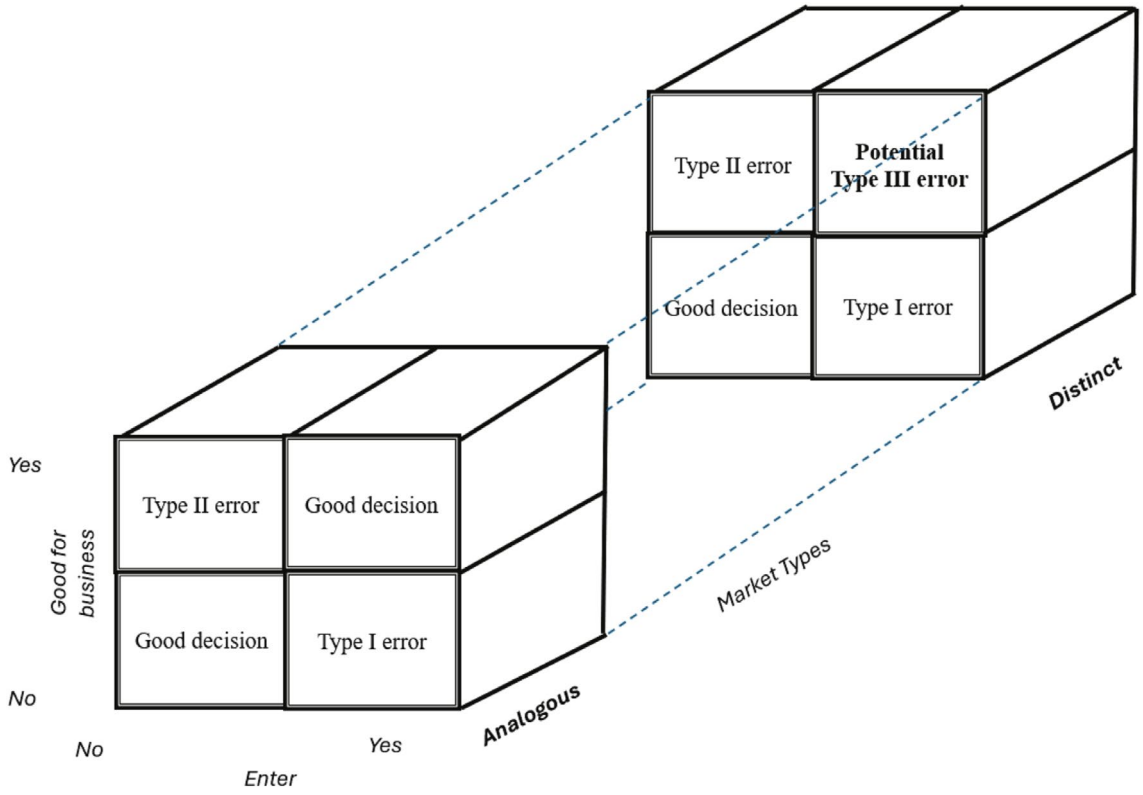

FIGURE 1 | Decision models and potential error types in IMS and entry decisions. [Color figure can be viewed at wileyonlinelibrary.com]

inappropriate entry modes can lead to business failures or losses. This underscores the need to address the second question: how can we develop an IMS framework tailored to markets with distinct entry mode requirements? We argue for adopting a more contingent IMS model—one that builds in entry mode considerations early in the market selection process. In other words, firms should evaluate markets and entry modes simultaneously rather than treating them as separate steps. This approach involves distinguishing between analogous markets, which display similar attractiveness across different entry modes, and distinct markets, where one entry mode is more advantageous than others. By integrating entry mode selection within the IMS, firms can better respond to the diverse and evolving environmental factors in international business (Surdu et al. 2021), thereby reducing the incidence of Type III errors and enhancing the effectiveness of firms' internationalization strategies.

3 | Methodology

3.1 | Data Selection and Filter Process

We have constructed a dataset to illustrate the application of the methodology we propose for addressing the drawbacks of sequencing the IMS and entry modes. The initial database has 217 countries and 86 variables in three categories: common variables, export-related variables, and FDI-related variables, which were identified in earlier published studies. Common variables have five sub-categories: "market size" (e.g., GDP, domestic market size index), "market growth rate" (e.g., GDP per capita growth), "market intensity" (e.g., GDP per capita, PPP), "commercial infrastructure" (e.g., internet penetration, road connectivity index), and "social-economic factors" (e.g., life expectancy, unemployment rate). Export-related variables are those connected to export rankings, such as "trade % of GDP," "net trade in goods," and "trade freedom index." Since there are few FDI-related variables in current IMS literature, the FDI-related variables in this paper are mainly extracted from the "ease of doing business index," "economic freedom index," and FDI investment risk indicators closely related to FDI. Data on these variables were collected from World Bank, World Economic Forum, The Heritage Foundation, EuroMoney, and Credendo using the most recent available data, ranging from 2017 to 2021.

In order to avoid high correlations between variables that lead to some dimensions having a greater weight than expected, we checked the correlation among the 86 variables and kept only one of the variables for those with a correlation greater than 70%. We excluded countries with more than 10% missing data from the initial 217 countries and regions. After the two steps, 86 countries and 30 variables were retained, that is, 10 common variables, 10 export-related variables, and 10 FDI-related variables (Table 2).

3.2 | Method

We employ a country ranking approach to screen potential countries, which is a systematic method offering flexibility (Cavusgil et al. 2004). In our case, we use country-level variables as a general example. Our main purpose is to demonstrate how the proposed model works; therefore, we do not include industry and firm-level variables. Nevertheless, it is essential to note that in

TABLE 2 | Variables and weights for country ranking.

Categories	Sub-categories	Variables	Weight
Common variables	Market size	Apparent consumption (GDP+ imports of goods and services-exports of goods and services)	4%
		Domestic market size index	2%
	Market growth rate	GDP per capital growth (annual %)	2%
	Market intensity	GDP per capital, PPP	6%
	Commercial infrastructure	Internet user penetration	1%
		Mobile cellular subscriptions (per 100 persons)	1%
		Road connectivity index	1%
	Social economic factors	Life expectancy at birth (years)	1%
		Unemployment (% of total labor force)	1%
		Adult literacy rate	1%
Total weights			**20%**
Export-related variables	Ease of doing business	Trading across border	10%
		Cost to import: documentary compliance	20%
	Growth rate	Trade % of Growth	4%
	Market receptivity	Trade % of GDP	8%
		Balance of trade (% of GDP)	5%
		Net trade in goods (BoP, current US$)	5%
	Commercial infrastructure	Container port traffic	3%
		Transport service (% of commercial service import)	5%
	Economic freedom	Trade Freedom	10%
	Export transactions risk	Commercial risk	10%
Total weights			**80%**
FDI-related variables	Ease of doing business	Debt to GDP ratio	5%
		Obtaining credit score	10%
	Economic freedom	Business freedom index	10%
		Financial freedom	7%
		Labor Freedom	8%
		Fiscal health	10%
		Tax burden (% of GDP)	5%
		Resolving insolvency	5%
	FDI-investment risk	Political violence risk	10%
		Country risk	10%
Total weights			**80%**

Note: The bold value represents the total of the preceding non-bold values.

certain instances, each firm can customize the criteria to align with their unique requirements. This customization may involve incorporating variables related to the firm's home country and industry-specific and/or product-specific variables. Firms can also assign weights to each variable based on its significance to their particular situation (Cavusgil et al. 2004).

The country screening process involves the following steps: first, we select appropriate criteria to distinguish between different entry modes using export and FDI as examples. Second, we assign different weights to each variable based on their respective importance. Third, we invert the values of some variables (whereby higher values indicate a poorer outcome) such

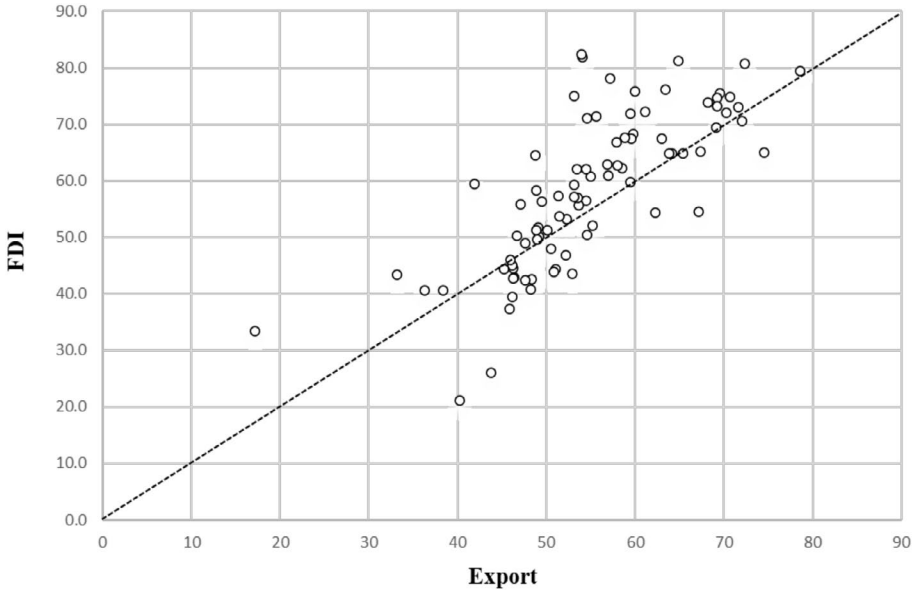

FIGURE 2 | Country ranking distribution.

as "commercial risk" and "cost to import: documentary compliance" in export ranking, and "debt to GDP ratio", "political violence risk", and "country risk" in FDI ranking. Fourth, we perform two separate country rankings: one for export, which comprises 10 common variables each weighted at 20%, and 10 export-related variables weighted at 80%. The other ranking is for FDI, including the same 10 common variables used in the export ranking, which account for 20% of the total weight, and 10 FDI-related variables weighted 80%. Following the example provided by Cavusgil et al. (2004), we standardize all variables on a scale of 1–100 using the following formula:

$$X'_{ij} = \left[\frac{X_{ij} - min_i}{R_i} \times (99)\right] + 1$$

where X'_{ij} represents the standardized value for the j th country on dimension i; X_{ij} represents the average score of country j on dimension i; min_i is the minimum value for dimension i; R_i is the range of dimension i.

Country rankings for export countries and FDI countries were conducted respectively based on the final score of all the countries. A 45° line, denoted by Y = X, is drawn to indicate a one-for-one exchange between the export and FDI grades. The distance to the line is then calculated. According to Vendrell-Herrero et al. (2017), the Euclidean distance provides greater flexibility compared to measuring solely along the horizontal or vertical axes. Figure 2 graphs the different countries, with FDI grade on the Y-axis and export grade as the X-axis, along with the 45° line.[1]

Based on the results, the average distance between export and FDI among the 86 countries is 7.01, in which New Zealand has the largest distance (28.54) and Guatemala and Malaysia have the smallest distance (0.58). The detailed list of countries' scores, ranks in export and FDI, and countries' distances is in the Figure A1, Table A1.

To more precisely categorize countries based on the distance between export and FDI activities, we divided the overall scores for each country into four levels using the following criteria: the 90th percentile (very high), the 75th percentile (high), the 50th percentile (moderate), and values below the 50th percentile (low). These divisions were applied separately to each ranking.

Set (Export) = {very high (≥ 69.4); high (61.4–69.4); moderate (54.9–61.4); low (≤ 54.9)}.

Set (FDI) = {very high (≥ 75.5); high (69.7–75.5); moderate (58.4–69.7); low (≤ 58.4)}.

We employed a dual criteria approach to determine distances: proximity to the 45° line and the grade-level difference between export and FDI rankings. For countries to be classified as having smaller distances, they must (1) have a distance below the average of 7.01, and (2) exhibit no more than a one-level difference in export and FDI rankings. For instance, Singapore, with export and FDI scores of 78.6 and 79.5 respectively (both very high) and a distance of 0.87, qualifies as having a small distance. Similarly, the Netherlands, with an export score of 71.6 and an FDI score of 73.1, shows only a one-level difference and a distance of 1.5, also indicating a small distance. Conversely, a larger distance suggests multiple level differences between export and FDI rankings and a distance exceeding the average. Some countries, such as New Zealand (export score: 53.9, FDI score: 82.5, distance: 28.54) and China (export score: 67.2, FDI score: 54.6, distance: 12.58), are clear examples of distinct markets for which only one entry mode appears to be more suitable, while New Zealand is more attractive for FDI than exports, China is stronger in exports than FDI.

While we provide evidence for the existence of distinct markets, it is also necessary to establish a systematic approach for determining when a country can be classified as analogous (for which both entry modes are equally suitable) or distinct

(for which one entry mode is clearly more favorable than the other). To achieve this, we categorized countries based on the ranking and distance criteria outlined above. Specifically, we identified analogous markets as those with similar score levels (differing by no more than one level—for example, both scores in the high-grade range or one score in the very high-grade range and the other in the high-grade range) and smaller distances (less than average distance of 7.01) between entry mode suitability indicators, suggesting that both export and FDI are viable options. In contrast, distinct markets exhibited strong differences in score levels and larger distances, indicating a clear preference for one entry mode over the other. This classification provides a structured method for distinguishing between market types, offering firms a more precise framework for aligning their internationalization strategies with market-specific conditions.

4 | Results

The market categories "analogous markets" and "distinct markets" can be further broken down into different scenarios. We first discuss "analogous markets," which are depicted in Figure 3. These markets are characterized by their similar attractiveness across different entry modes and their proximity to the 45° line, with a distance of less than the average 7.01. For companies targeting these markets, selecting an entry mode should not pose a great challenge. The key here is to choose the right market to avoid type I (entering the wrong market) and type II (not entering the right market) errors. Companies entering "analogous markets" may either rely on familiar entry modes aligned with their strategic objectives referred to as different "seekings" (Dunning 1993), or choose to decide on entry modes only after the initial market screening (IMS), following the classic sequential internationalization process. Therefore, current IMS methodologies continue to suffice for countries in this type of market. "Analogous markets" can be further divided into four scenarios:

1. Highly sought-after markets for export and FDI: This scenario includes countries that excel in both rankings (export ≥69.4 and FDI ≥75.5), such as Singapore (78.6, 79.5, distance 0.87).
2. Desirable markets for export and FDI: These markets achieve high-level grades in both entry modes (export ≥61.4, FDI ≥69.7). For example, Germany (70.7, 74.8, distance 4.09), Netherlands (71.6, 73.1, distance 1.5), and Austria (70.3, 72.1, distance 1.86).
3. Moderate attractiveness in export and FDI: Countries in this category achieve moderate grades with a lower than average distance (export: 54.9–61.4, FDI: 58.4–69.7). Examples include Greece (59.4, 59.8, distance 0.35) and Italy (58.6, 62.2, distance 3.59).
4. Attractive for neither exports nor FDI: These markets receive comparatively low scores in both rankings, for example, Sri Lanka (38.3, 40.6, distance 2.24) and Bangladesh (36.3, 40.6, distance 4.25).

The other market category, referred to as "distinct markets", requires companies to pay special attention to entry modes during the market selection process to avoid Type III error (choosing the right market but entering with the wrong entry mode). Our model is designed to help reduce the incidence of Type III error by promoting the simultaneous and coherent decision-making needed for both market and entry mode selection. This approach affords a more dynamic perspective that enhances existing IMS methodologies. "Distinct markets" can be further divided into three scenarios:

1. Highly suitable for one entry mode: Countries in this scenario show a substantial deviation from the 45° line (more

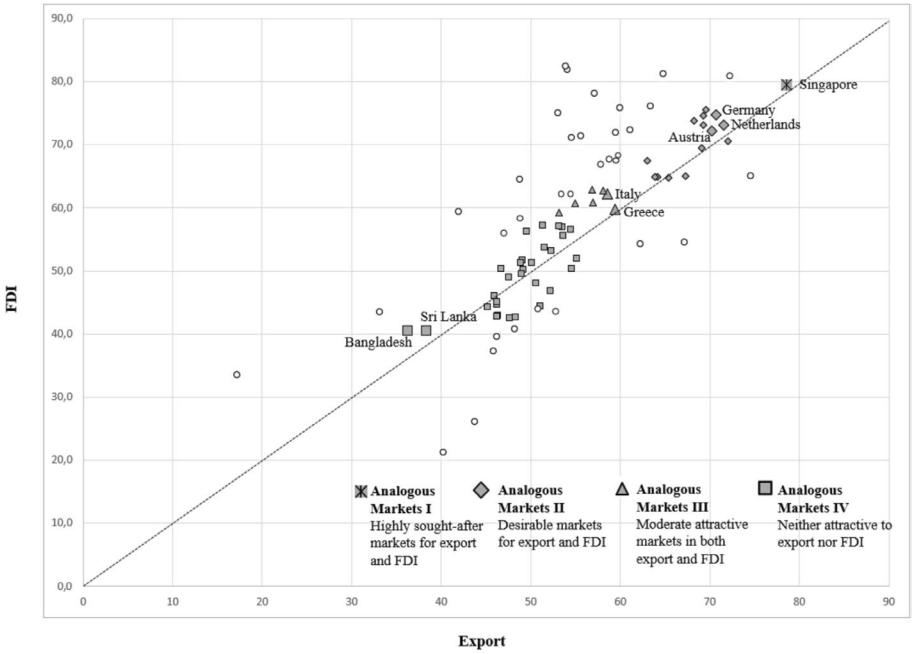

FIGURE 3 | Analogous markets distribution in 45° line.

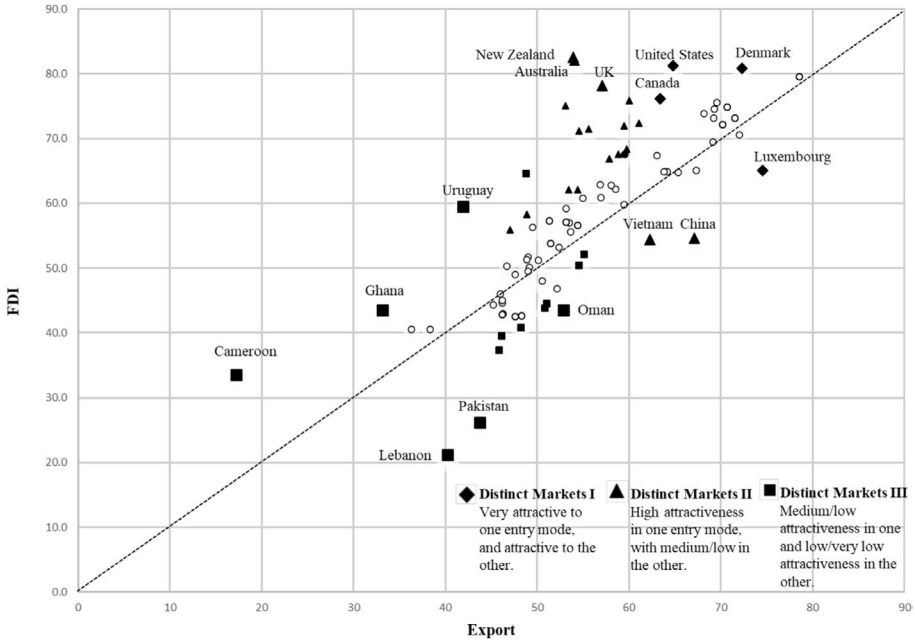

FIGURE 4 | Distinct markets distribution in 45° line.

than the average of 7.01) due to their varying export and FDI scores. One score is in the highest range (export ≥69.4 or FDI ≥75.5), while the other ranges from export 61.4 to 69.4 or FDI 69.7 to 75.5. For example, Luxembourg (74.6, 65.0, distance: 9.59) is ideal for export. Conversely, countries like the United States (64.9, 81.2, distance: 16.34), Canada (63.4, 76.1, distance: 12.74), and Denmark (72.3, 80.8, distance: 8.44) are more suitable for FDI.

2. Suitable for one entry mode, moderate to low in the other: Companies considering these markets must carefully evaluate their entry strategies in order to avoid Type III error. For example, China (67.2, 54.6, distance 12.58) and Vietnam (62.3, 54.3, distance: 7.98) are desirable for export but less appealing for FDI compared to export. In contrast, New Zealand (53.9, 82.5, distance: 28.54), Australia (54.1, 82.0, distance 27.89), and the United Kingdom (57.1, 78.1, distance: 20.94) are attractive for FDI but less so for export.

3. Medium/low attractiveness in one entry mode and low/very low in the other: Countries in this scenario have a moderate score for one entry mode (export between 54.9 and 61.4, FDI between 58.4 and 69.7) and a low score in the other (export ≤54.9, FDI ≤58.4), making them less suitable for market selection. Examples include Oman (52.9, 43.5, distance: 9.37), Pakistan (43.8, 26.1, distance: 17.69), Ghana (33.2, 43.5, distance: 10.29), and Cameroon (17.2, 33.4, distance: 16.25).

In sum, the results indicate that markets are vulnerable to different types of errors, as outlined above in Figure 1. Figures 4 and 5 illustrates the potential markets associated with these errors in our case. Entering **analogous markets** (those with low grades for both export and FDI such as Sri Lanka and Bangladesh) may lead to a **Type I error** (entering the wrong market). Conversely, failing to enter markets with high grades for both entry modes (such as Singapore, Germany, and the Netherlands) may result in a **Type II error** (not entering the right market). For **distinct markets**, which are the primary focus of this paper, the alignment between market characteristics and entry mode selection becomes crucial. Entering markets such as New Zealand, Australia, and the UK through FDI can be a good strategic match, whereas using export as the entry mode for these markets may not be ideal. Conversely, for China, export may be a more suitable entry mode than FDI. For companies targeting distinct markets, even if the market selection itself is sound, choosing the wrong entry mode can lead to a **Type III error**—a critical mistake that could be avoided through careful consideration.

We emphasize again that these results are based on the general criteria used for ranking to illustrate how this model functions. Results may vary widely for specific companies based in different home markets, operating in different industries, and those subjected to diverse internal and external factors.

5 | Discussion and Theoretical Implications

This paper underscores the importance of considering market selection and entry modes simultaneously in order to avoid Type III errors, which occur when entering the right market with the wrong entry mode. We categorize markets as "analogous" and "distinct". While previous IMS models effectively prevent Type I (entering the wrong markets) and Type II errors (not entering the right markets) in "analogous" markets, they inadequately address the need for precise entry mode selection in "distinct" markets. These markets exhibit varying levels of attractiveness across different entry modes, demanding careful consideration to prevent Type III errors. We have further subdivided "distinct" markets into three scenarios in which the suitability for exporting and FDI varies substantially, highlighting the need for strategic alignment between market selection and entry modes to minimize errors and optimize market entry success.

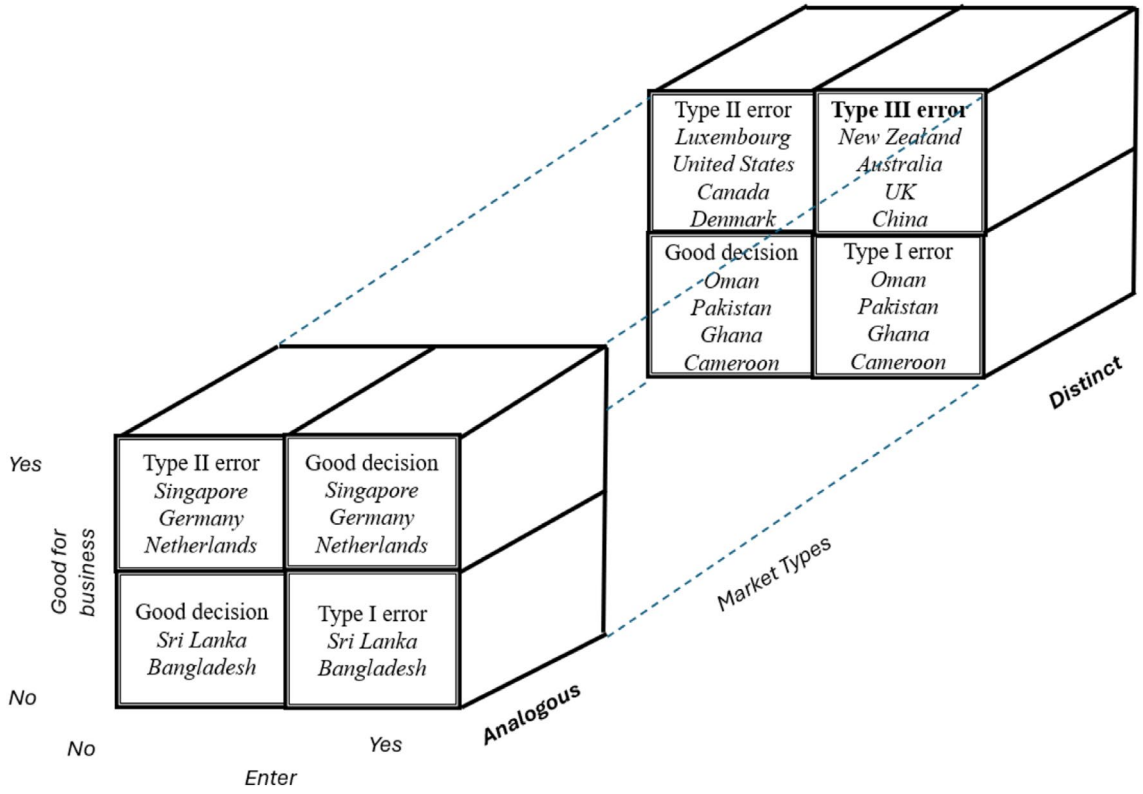

FIGURE 5 | Decision models and potential error types in IMS and entry decisions with examples. [Color figure can be viewed at wileyonlinelibrary.com]

This study makes two key contributions to the literature. First, we challenge the conventional separation between market selection and entry mode decision in internationalization frameworks. While traditional models treat these decisions as independent and sequential steps (e.g., Andersen and Buvik 2002; Cavusgil et al. 2004; He and Wei 2011; Kumar et al. 1994; Papadopoulos et al. 2002; Robertson and Wood 2001; Westhead et al. 2002), recent research by Leiblein et al. (2022) reveals strong interdependencies between these choices. Their findings demonstrate that governance decisions (entry modes) can influence location selection, and vice versa, raising critical questions about the timing and sequencing of these decisions. Building on this insight, our study directly addresses the gap identified by Leiblein et al. (2022) by proposing a dynamic and contingent model that integrates market selection and entry mode considerations concurrently. This approach resolves the dilemma highlighted in their work, enabling firms to assess both target markets and entry modes simultaneously rather than treating them as isolated or sequential decisions.

Our model also challenges the implicit assumption in IMS literature that all markets are analogous with respect to entry modes. By identifying and addressing the disconnect between market selection and entry mode decisions, we contribute to advancing the literature and offer a more strategic and responsive approach to internationalization. Specifically, our model overcomes the limitations of traditional sequential frameworks, which often lead firms to prematurely settle on familiar entry modes before selecting a market (e.g., Cavusgil et al. 2004; He and Wei 2011) or defer the consideration of entry modes until after the market has been chosen (e.g., Katsikeas et al. 2019; Mersland et al. 2020), thereby increasing the risk of Type III error. Instead, our approach aligns more closely with firms' specific circumstances, offering greater adaptability and strategic coherence in navigating the dynamic complexities of international business contexts.

Second, we identify a new error within IMS – III error–that differs fundamentally from the errors that traditional IMS frameworks aim to resolve. Despite advancements in IMS models over the years, the primary focus has been on selecting the right market, with efforts concentrated on avoiding Type I and II errors, which have to do with whether the chosen market is suitable. However, these models often overlook Type III errors. By identifying and highlighting these errors, our study complements existing IMS models. We argue that recognizing and addressing the Type III error is essential for refining IMS strategies, as it accounts for the dynamics between market selection and entry mode decisions. This underscores that the effectiveness of international expansion is not only about choosing the right market but also about aligning entry strategies with market characteristics.

Altogether, our model aligns with evolving theories of internationalization that criticize the static nature of classic sequential models for failing to account for dynamic factors such as sudden disruptions and unique opportunities (Santangelo and Meyer 2017; Schweizer and Vahlne 2022). By combining market selection and entry mode decisions into a unified framework, our study not only advances the theoretical understanding of these interdependencies but also provides practical tools for firms to make more informed and effective internationalization decisions.

6 | Practical Implications

This paper also offers valuable managerial guidance for decision-making in firms' internationalization strategies. First, our IMS model uses two key metrics: ranking to identify the most appropriate markets, and distance to diagonal to pinpoint those distinct markets. This approach enables a more responsive and informed decision-making process, allowing managers to assess market suitability more precisely.

Second, we spotlight an error that is often overlooked in earlier IMS frameworks—the Type III error. This error occurs when decision-makers successfully identify the appropriate market, but a mismatch between the entry mode and the market impedes growth and possibly creates financial losses. This issue is especially threatening to SMEs, as they typically have fewer resources than larger multinational enterprises (MNEs).

Furthermore, it is crucial for decision-makers to recognize that adherence to the traditional sequential model of internationalization (starting with exports and gradually moving to higher levels of entry modes such as FDI) is not always a necessity and is even sometimes an error. As Benito (2015) points out, "a company that sub-contracts parts of its production to a foreign supplier is efficiency-seeking just like one that has set up its own subsidiary to carry out production." This observation underscores the variety of entry modes available, each with its strategic advantages and risks. Given the variety of entry modes, it becomes increasingly important for decision-makers to carefully evaluate which mode aligns best with the attractiveness of their potential target markets. Employing our model to assess these considerations can help decision-makers optimize their strategies, enhance efficiency and cost-effectiveness, and greatly reduce inherent risks. This strategic approach not only addresses current challenges in IMS but also adapts to the evolving dynamics of international business, making it an essential tool for firms wishing to profitably expand their global footprint.

7 | Limitations and Directions for Further Studies

This study is not without its limitations. Our focus was primarily on two specific entry modes: export and FDI, which differ greatly in terms of control, commitment level, risks, and resources. The main goal was to demonstrate the concept of a more flexible IMS model that integrates various entry modes into the foreign market selection process. However, it is important to recognize that there are other entry modes, including licensing, franchising, strategic alliances, and joint ventures, and that these bring their own considerations and challenges. These models require specific criteria for evaluation within the IMS framework. Future research should undertake to identify the criteria relevant to these alternative entry modes and develop a comprehensive, multi-dimensional IMS model that accommodates them.

Such research would provide a more holistic understanding of international market selection, enabling firms to make informed decisions across a broader spectrum of entry modes. This extension of the research would greatly enhance the practical applicability of IMS models, addressing the evolving needs and complexities faced by international businesses in a dynamic global marketplace.

Data Availability Statement

The data that support the findings of this study are available on request from the corresponding author. The data are not publicly available due to privacy or ethical restrictions.

Endnotes

[1] We also draw a Least-squares trendline to establish the correlation among data points within the Cartesian coordinate system. The trendline is clearly discernible in the figure, representing the optimal fit of data points that signify varying degrees of attractiveness for export and FDI in different countries. The results are aligned with the 45° line.

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Appendix A

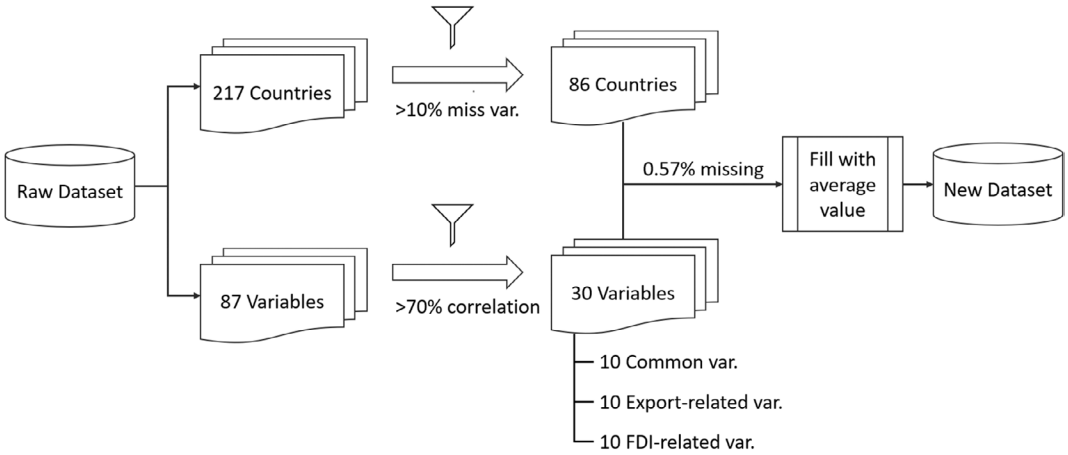

FIGURE A1 | Data selection and filter process.

TABLE A1 | Country ranks for export and FDI and distance to 45° line.

Country	Export	Rank	FDI	Rank	Distance
Singapore	78.6	1	79.5	5	0.87
Luxembourg	74.6	2	65.0	29	9.59
Denmark	72.3	3	80.8	4	8.44
Lithuania	72.0	4	70.6	21	1.45
Netherlands	71.6	5	73.1	15	1.50
Germany	70.7	6	74.8	11	4.09
Austria	70.3	7	72.1	17	1.86
Switzerland	69.5	8	75.5	9	6.01
Sweden	69.3	9	74.6	12	5.32
Norway	69.2	10	73.2	14	3.94
Estonia	69.1	11	69.4	22	0.30
Finland	68.2	12	73.9	13	5.68
Korea, Rep.	67.3	13	65.1	28	2.22
China	67.2	14	54.6	52	12.58
Malaysia	65.4	15	64.8	32	0.58
United States	64.9	16	81.2	3	16.34
Israel	64.2	17	64.9	30	0.71
Chile	63.8	18	64.9	31	1.02
Canada	63.4	19	76.1	7	12.74
Japan	63.0	20	67.4	26	4.42
Vietnam	62.3	21	54.3	53	7.98
Belgium	61.1	22	72.3	16	11.21
Czech Republic	60.0	23	75.8	8	15.81

(Continues)

TABLE A1 | (Continued)

Country	Export	Rank	FDI	Rank	Distance
Hungary	59.8	24	68.3	23	8.55
Slovenia	59.6	25	67.5	25	7.94
Poland	59.5	26	72.0	18	12.48
Greece	59.4	27	59.8	41	0.35
France	58.9	28	67.6	24	8.67
Italy	58.6	29	62.2	36	3.59
Portugal	58.0	30	62.8	35	4.75
Spain	57.9	31	66.9	27	9.00
United Kingdom	57.1	32	78.1	6	20.94
Romania	56.9	33	60.9	39	3.93
Bulgaria	56.9	34	62.9	34	5.96
Latvia	55.6	35	71.4	19	15.79
Croatia	55.2	36	52.0	56	3.15
Thailand	55.0	37	60.7	40	5.76
Turkey	54.6	38	50.4	60	4.20
Iceland	54.6	39	71.1	20	16.49
Serbia	54.5	40	56.5	48	2.04
Cyprus	54.5	41	62.0	38	7.55
Australia	54.1	42	82.0	2	27.89
New Zealand	53.9	43	82.5	1	28.54
Montenegro	53.6	44	55.6	51	2.00
Qatar	53.5	45	57.0	47	3.49
Kazakhstan	53.5	46	62.1	37	8.58
Mexico	53.2	47	59.2	43	6.06
Georgia	53.2	48	57.1	46	3.94
Ireland	53.1	49	75.0	10	21.89
Oman	52.9	50	43.5	73	9.37
Mongolia	52.3	51	53.2	55	0.88
Morocco	52.2	52	46.8	66	5.35
Albania	51.5	53	53.7	54	2.21
Peru	51.3	54	57.2	45	5.90
Bosnia and Herzegovina	51.0	55	44.5	70	6.59
Moldova	50.9	56	43.8	72	7.07
Dominican Republic	50.6	57	48.0	65	2.57
Costa Rica	50.2	58	51.3	59	1.09
Russia	49.5	59	56.3	49	6.76
El Salvador	49.2	60	50.1	62	0.97
Armenia	49.0	61	51.8	57	2.72
Guatemala	49.0	62	49.6	63	0.58
Saudi Arabia	48.9	63	51.3	58	2.41

(Continues)

TABLE A1 | (Continued)

Country	Export	Rank	FDI	Rank	Distance
Colombia	48.9	64	58.2	44	9.37
Mauritius	48.8	65	64.5	33	15.70
Paraguay	48.3	66	42.6	77	5.74
Nepal	48.2	67	40.7	79	7.51
Tunisia	47.7	68	42.5	78	5.17
Philippines	47.6	69	49.0	64	1.46
Indonesia	47.1	70	55.9	50	8.78
South Africa	46.7	71	50.3	61	3.67
Brazil	46.3	72	42.9	75	3.47
Argentina	46.2	73	42.7	76	3.50
Honduras	46.2	74	44.6	69	1.60
India	46.2	75	45.1	68	1.13
Ukraine	46.2	76	39.5	82	6.67
Cambodia	46.0	77	46.0	67	0.04
Ecuador	45.9	78	37.3	83	8.58
Jordan	45.2	79	44.3	71	0.92
Pakistan	43.8	80	26.1	85	17.69
Uruguay	41.9	81	59.4	42	17.45
Lebanon	40.3	82	21.2	86	19.11
Sri Lanka	38.3	83	40.6	80	2.24
Bangladesh	36.3	84	40.6	81	4.25
Ghana	33.2	85	43.5	74	10.29
Cameroon	17.2	86	33.5	84	16.25
75%	61.4		69.7		
90%	69.4		75.6		
Average	54.9		58.4		7.01