Choice of Foreign Market Entry Mode

Cognitions from Empirical and Theoretical Studies

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Abstract

This paper analyzes critically five basic theories on market entry mode decision with respect to existing strengths and weaknesses and the results of corresponding empirical studies. Starting from conflictions both in theories and empirical studies dealing with the entry mode choice problem we motivate a significant need of further research in this important area of international marketing. Furthermore we provide implications for managers in practice and outline emerging trends in market entry mode theory as well as possible starting points for future research.

Keywords: Market entry mode choice; Existing theories and empirical studies; Conflictions; Implications and future challenges.

1. Choice of market entry mode – a critical issue in international marketing

The interest in market entry mode choice originates from the theory of international investment. It was studied as a problem with distinctive feature, extent, form and pattern of international production (Southard 1931; Hymer 1960; Caves 1971 and 1974; Dunning 1958 and 1977). Then it was discussed as a critical issue in international marketing by many economists and marketing experts. Wind and Perlmutter (1977) argued that the choice of market entry mode has great impact on international operations and can be regarded as “a frontier issue” in international marketing. Root (1994) claimed that the choice of market entry mode is one of the most critical strategic decisions for MultiNational Enterprises (MNEs). It affects future decisions and performance in foreign markets, and it entails a concomitant level of resource commitment which is difficult to transfer from one to another, especially from high level to low level. Kumar and Subramaniam (1997), Chung and Enderwick (2001), as well as

Nakos and Brouthers (2002) emphasized that the choice of market entry mode is a critical strategic decision for firms intending to conduct business overseas.

Being such an important issue market entry mode choice became the object of numerous theories and models developed to understand and explain associated phenomena. Among these five basic approaches are particularly prominent and have been applied widely. They are

1. the Stage of Development (SD) model (Johanson and Paul 1975; Brooke 1986),
2. the Transaction Cost Analysis (TCA) model and extensions (Anderson and Gatignon, 1986; Hill et al. 1990; Erramilli and Rao 1993),
3. the Ownership, Location and Internalization (OLI) model (Dunning 1977, 1980, 1988, 1995, 1998, and 2000),
4. the Organization Capacity (OC) model (Aulakh and Kotabe 1997; Madhok 1998), and
5. the Decision Making Process (DMP) model (Root 1994; Young et al. 1989).

To our knowledge no prominent models or rather theories have been developed in recent years, but various empirical studies have been carried out to test the validity of the existent ones, to find factors that might have an impact on the choice of market entry mode and to measure corresponding effects.

In the '90s Hill et al. (1990) integrated environmental and strategic factors into the TCA framework. Klein et al. (1990) extended TCA by integrating production costs and dividing external uncertainty. Erramilli and Rao (1993) modified the TCA framework to adapt it to the service industry. Coviello and Munro (1997) argued that the network relationship developed affects firm's internationalization and the choice of entry mode. Tse et al. (1997) have analyzed the influence of country specific, industry specific, and operation related factors on entry mode choice. Reuber and Fisher (1997) pointed out that the international experience of a management team is positively related with the development of strategic partners and foreign sales. Pan et al. (1999) examined the impact of order and mode of entry on firm performance in foreign markets. Finally, Brouthers et al. (1999) supported Dunning's OLI framework by empirically examining German and Dutch firms that had invested in Central East European countries (CEE).

In the current decade most of the relevant research is focused on examining the impact of specific factors on the entry mode decision. Among these factors institution attracted greatest attention. Some papers extended the TCA theory by adding institutional factors into the given framework (Brouthers 2002; Lu 2002). Others argued that institution affects the entry mode decision by increasing the cost of uncertainty and transaction (Said and McDonald 2002; Meyer 2000). Further factors which have been examined empirically are:

- technology transfer (Mattoo 2001),
- immigrant effect (Chung and Enderwick 2001),
- market size (Nakos and Brothers 2002; Eicher and Kang 2002; Chung and Enderwick 2001),
- firm size (Leung et al. 2003; Nakos and Brouthers 2002; Evans 2002),
- CEO successor characteristics (Herrman and Datta 2002),
- cultural distance (Leung et al. 2003; Chen and Hu 2002; Gillespie 2002; Evans 2002; Cristina and Esteban 2002),
- industry barriers and firm advantages (Chen and Hennart 2002; Siripaisalpipat and Hosbino 2000),
- international experience (Reuber and Fisher 2003; Evans 2002; King and Tucci 2002),
- country risk and environmental uncertainty (Cristina and Esteban 2002),
- role of staffing (Konopaske et al. 2002), as well as
- foreign exchange rate and host country currency (Baek and Kwok 2002).

All these factors can be classified into country specific factors (cultural distance, institution, exchange rate, etc.), industry specific factors (market size, market structure, industry type, etc.), firm specific factors (firm capacity, firm size, etc.) and product specific factors (product type, maturity, sales service, etc.).

As to be demonstrated in the following section it is easy to see that there is no great congruence regarding which of the available models is most applicable to entry mode choice decision. As to be expected each model has its specific limitations.

The remainder of the paper is organized as follows. In section 2 we give an overview of existing theories and models on market entry mode choice and discuss their strengths and weaknesses. Conflicting results of existing theories and empirical studies are discussed in section 3. The theoretical and empirical cognitions drawn from this review are then used as the basis for practical implications for marketing management and some general suggestions for future research in section 4.

2. Description and critical discussion of established theories

2.1 The SD model

The stage of development (SD) model, which is also known as U model, was proposed by Johanson and Paul (1975) while studying internationalization strategies of Small and Medium sized Enterprises (SMEs). The model asserts that the internationalization of SME is a long, slow, and incremental process with two dimensions: the geographical or rather cultural expansion and the commitment. The original approach was enhanced and applied by Brooke (1986) to explain market entry mode decisions. The author concluded that the entry mode is dependent on the stage of a firm's development. But also the enhanced model still has some shortcomings: it provides a set of feasible entry modes but not the right ones (Young et al. 1989). Due to the fact that it is not capable of explaining why a newly established firm starts entry with wholly owned venture but not export, the SD model does not dominate in existent literature.

2.2 The TCA model and its extensions

Transaction cost analysis (TCA) was proposed by Anderson and Gatignon (1986). The underlying theory is based on transaction cost economics initiated by Williamson (1975 and 1985) as a tool to explain economic problems where asset specificity plays a key role. Under the hypothesis that organizational structure and design are determined by minimizing transaction costs, they concluded that 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. Entry modes are assessed by the level of control. Wholly owned ventures, for example, are characterized by the highest level of control. In the relevant paper special measures for each of the four constructs have been developed. Additionally, some testable propositions are addressed.

The framework was then widely extended and examined by other researchers. Anderson and Weitz (1986) constructed a framework using transaction cost theory to analyze vertical integration and marketing productivity problems. Hill et al. (1990) integrated both environmental and strategic factors into the TCA framework. Klein et al. (1990) extended the TCA by integrating production costs and by dividing external uncertainty. Erramilli and Rao (1993) modified the framework of the TCA to suit for service industries by assuming that firms prefer high level of control unless proven otherwise. Lu (2002) put forward institutional theory as complementary to TCA theory by claiming that the latter is static and unable to explain the evolution of entry mode. Brouthers (2002) extended the TCA to institutional, cultural and transaction cost theory. He claimed that institutional factors refer to the conditions that undermine property rights and increase risks in exchange and that cultural factors tend to influence managerial costs and uncertainty evaluation in the target market. Through empirical examination he concluded that firms which make their entry mode choice with this criterion are performing better than those which do not. Other researchers empirically examined the TCA on different samples and found great support. Meyer (2000), through examining the investment behavior of German and British MNEs in CEE, concluded that unstable incomplete institutions increase the transaction costs and thus influence the entry mode decision in transiting economies such as CEE. Nakos et al. (2002) analyzed both the market entry decisions and the performance of Dutch and Greek SMEs in CEE and concluded that the transaction cost relationship identified in previous MNEs studies tend to apply to SMEs as well. Chen and Hu (2002) supported the framework of TCA by examining foreign-invested firms in China from 1979 to 1992. Leung et al. (2003) utilized survival analysis to examine the TCA related factors effecting entry mode decisions of foreign banks for China.

Despite of offering many insights into the role of corporate governance in entry mode decision, the TCA model and its extensions have some clear weaknesses. Transaction costs themselves are ambiguous and difficult to measure. Thus they can only offer very limited implications for the managers in practice, and, what’s more important, transaction cost economy itself has no connection with corporate governance. The TCA framework has only limited explanation ability with respect to complex multinomial choices of market entry mode (Klein et al. 1990; Gatignon and Anderson 1988) and it is imperfect due to the fact that it

- neglects government regulations, which generally define the feasible set of entry modes, and production costs (Anderson and Gatignon 1986),
- fails to address the larger strategic and competitive context within which the firms are operating (Madhok 1998),
- assumes that the only objective of entry mode choice decisions of a MNEs is profit maximization, which is not always true[1] (Milgrom and Roberts 1992), and
- excludes non-transaction benefits (Anderson and Gatignon 1986).

Even though meanwhile extensions of the basic framework are including some of the ignored factors, they are still based on transaction costs which are difficult to measure prior to the relevant transactions.

2.3 The OLI model

The ownership, location and internalization (OLI) theory was introduced by Dunning (1977) at a presentation on a Nobel Symposium in Stockholm on "The International Allocation of Economic Activity" intending to identify and evaluate the factors influencing both the initial act and the growth of foreign production. In the following decades the model was developed by the author himself (Dunning 1980, 1988, 1995, 1998, and 2000).

In his first presentation Dunning recognized that attempts to identify distinctive features of foreign direct investment in terms of ownership endowments were done by Southard (1931) and Dunning (1958). This idea was explored by Hymer (1960) in his PhD thesis and was refined and extended by Caves (1971 and 1974). Many hypotheses focusing on particular kinds of ownership advantages of MNEs were put forward, for example, production differentiation (Caves 1971) as well as entrepreneur and managerial capacity (McManus 1972). He also ac-

[1] Some MNEs might enter into a new market for strategic networking for instance. Or, if a MNE is owned by several shareholders, and if some of them are meanwhile upstream or downstream partners of the considered MNE, those might influence the MNE to adopt an entry mode which does not maximize the profit of the MNE but their own one.

knowledged that Vernon (1974) focused on location advantage of the host country to explain differential foreign investment. The concept of ownership advantage was integrated by Dunning (1977) to explain international production. Furthermore, Buckley and Casson (1976) proposed internalization to explain international investment and argued that MNEs would internalize its activities in a foreign country if the costs of internalization were lower than the costs of exporting or other contractual agreement.

The OLI theory stated that entry mode decisions are determined by the composition of three sets of advantages as perceived by enterprises:

a) ownership advantages (i.e. advantages that are specific to the nature and the nationality of the owner),
b) internalization advantages (i.e. advantages arising from transferring ownership advantages across national boundaries within own the organization), and
c) location advantages (arising from the fact that different locations feature different resources, institutions and regulations affecting the revenue and the cost of production).

The more OLI advantages a firm possesses the greater the propensity of adopting an entry mode with a high control level such as wholly owned venture. The aforesaid was updated by Dunning (1995, 1998, and 2000) who argued that competitive advantages, market failure and collaboration, as well as dynamic environments should also be integrated into the model when decisions on international production are made.

The OLI model was widely applied in the past to explain entry mode decisions and its basic ideas were supported by several empirical studies. Nakos and Brouthers (2002) as well as Brouthers et al. (1999) adopted this framework to explain MNEs' entry mode decision when facing a transition economy such as CEE. Agarwal and Ramaswami (1992) supported this theory by empirically examining a sample of American service firms. But in spite of its eclecticism, its improved measurability, and its great explaining power the OLI model is solely a static one. It intends to explore all important factors impacting entry mode decisions but in fact fails to do so due to the neglect of strategic factors, characteristics of and situational contingency surrounding the decision maker, and competition.

2.4 The OC model

The organization capacity (OC) model was developed by Aulakh and Kotabe (1997) and Madhok (1998) and it is based on organization theory. It regards a firm as a bundle of capabilities and knowledge where individual skills, organization and technology are inextricably woven together (Nelson and Winter 1982). The model argues that entry mode decision, the firm's boundary issue, is a capability related one, and it is made under a calculus governed by considerations related to the deployment and development of a firm's capabilities. For the first time firm or rather organization capacity is taken into account for entry mode choice decision making. However this model has some limitations. The traditional assumption 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.

2.5 The DMP model

The decision making process (DMP) model was proposed by Root (1994) and developed by Young et al. (1989), Kumar and Subramaniam (1997), Pan and Tse (2000), as well as Eicher and Kang (2002). It argues that entry mode choice should be treated as a multistage decision making process. In the course of decision making diverse factors, such as the objectives of the intended market entry, the existing environment, as well as the associated risks and costs, have to be taken into account. Focusing on optimizing the process of decision making but not on exploring which factors might affect and what their impact on entry mode choice is this model might be more practical. However it is still not perfect because it ignores the role of the organization itself and that one of the decision maker within the decision making process.

2.6 Summing up

To conclude this section we have summarized the main aspects of the above discussion in table 1.

Table 1 about here.

3. Some conflicting results

As could been seen from the discussion above most of the existent studies aim to explore the factors which are related to market entry mode choice and their impacts. In fact there are a lot of factors that have to be taken into account in relevant research and practice. Root (1994) altogether identified 22 factors influencing market entry mode decision, but one has to suppose that there are still more.

One of the main problems regarding the market entry mode decision is the fact that it is ill-defined, complex and dynamic (Kumar and Subramaniam 1997; Young et al. 1989). It is a function of various factors and their interactions. And of course not all factors have equal importance. Moreover, the same factors may play a different role in different contexts. People studying the problem with different expectations may arrive at different conclusions. Different samples selected, different time period analyzed, different methodologies used, or even different skills of the analysts may also induce conflicting results, especially in empirical studies. In the following subsections we are going to offer some examples to demonstrate this phenomenon, of course it is easy to find some other cases.

3.1 Conflicting results of theoretical studies

Researchers failed to find great congruence on the impact of international experience. Some have argued that a firm's level of international involvement is positively related to international experience, i.e. the more international experience a firm possesses the more efficient it is to adopt an entry mode with a higher level of control. This theory is based on humanity of firm, i.e. the assumption that a firm behaves humanlike and matures as it acquires experience in international markets (Stopford and Wells 1972). Nakos et al. (2002), Anderson and Gatignon (1986), as well as Davidson (1980 and 1982) supported this idea explicitly. The counter-argument is that international experience is negatively related to international involvement, i.e. the more international experience a firm has the more efficient it is to adopt entry mode with a lower level of control. This theory is based on the ethnocentric orientation of many international neophytes. Ethnocentrism leads inexperienced firms to demand high ownership first in order to explore its advantages by holding key positions. Later on when the firm has acquired local knowledge and when it has adapted to local conditions shared ownership or a low degree of ownership is preferred. This theory was supported by Weichmann and Pringle (1979). However, some others argued through empirical studies that international experience has no significant relation with the choice of entry mode (Brouthers 2002; Chung and Enderwick 2001).

Cultural distance was another arguable factor. Some economists or marketing experts point out that the cultural distance between the home and the host country discourages the ownership involvement, i.e. it is negatively related to the level of control. This viewpoint was supported by Erramilli and Rao (1993), Gatignon and Anderson (1988), as well as Kogut and Singh (1988), and may be explained

- by managers shying away from ownership involvement when they have no or solely inconsistent knowledge about local values or operation methods (Root 1994; Davidson 1980 and 1982), or
- by managers undervaluing the investment due to uncertainty caused by cultural distance (Root 1994), or
- by high information collecting costs due to cultural distance (Root 1994), or
- by high managerial costs, e.g. due to required trainings.

But not all authors think so. Some economists argue that cultural distance encourages ownership involvement. This can be explained by the fact that ownership makes it possible to do things in its own way which is assumed to be more efficient and more advantageous (Hymer, 1960). This viewpoint was supported by empirical studies of Anand and Delios (1997) as well as Padmanabhan and Cho (1996).

3.2 Conflicting results of empirical studies

International experience, assumed to have important implications for entry mode decision, was examined empirically with great frequency. Surprisingly much conflicting results can be observed thereby. Some studies support the assumption that the more international experience a firm possesses the more efficient it is to adopt an entry mode with higher level of control, i.e. a positive relation is concluded. Such findings were made by Evans (2002), Herrman and Datta (2002), King and Tucci (2002), Reuber and Fisher (1997), Argarwal (1994), Erramilli (1991), Anderson and Gatignon (1986), as well as Caves and Mehra (1986). In contrast to this Chung and Enderwick (2001) found some empirical support for a negative relation.

There are also conflicting results with regard to the influence of cultural distance on entry mode decision. Some studies, see e.g. Leung et al. (2003), Cristina and Esteban (2002), Evans (2002), Treadgold (1998), Gatignon and Anderson (1998), Hennart and Larimo (1995), Erramilli and Rao (1993), as well as Kogut and Singh (1988), found that there is a negative relationship with the level of control, i.e. the higher the cultural distance the more efficient it is to adopt an entry mode with a low level of control. Other empirical studies provided evidence for a positive relationship with the level of control. This, for example, applies for Anand and Delios (1997) as well as Padmanabhan and Cho (1996).

Firm size is another important factor which has initiated many examinations in the past and which also leads to obviously conflicting results. Some studies, such as those by Leung et al. (2003), Erramilli and Rao (1993), Kogut and Singh (1988), as well as Caves and Mehra (1986), support the assumption that the bigger a firm is, the more efficient it is to adopt high equity entry mode (i.e. positive relationship). In contrast to this Evans (2002) as well as Reuber and Fisher (1997) found that the size of a firm is not an important predictor.

Finally it is worth to be mentioned that most of the existent empirical papers on market entry mode choice are designed similarly. At first some hypotheses are developed on the basis of preceding literature research and/or own perceptions. This is followed by data gathering and analysis (primarily by means of regression based methods). Then, the factors being significantly related to entry mode choice are determined and interpreted with respect to their strategic management implications.

4. Conclusions and outlook

From the above considerations we can extract some useful implications for marketing management practice. At the same time the existing conflictions between theory and empirical “reality” make us conclude some implications for future research.

4.1 Implications for international marketing practice

As shown in the so-called “Observatories of European SME” small and medium enterprises in Europe are facing an intense domestic and international competition. They encounter four major constraints to their development: lack of skilled labors (20 %), access to finance (13 %), administrative regulation (12 %), and infrastructure (6 %). SMEs in other regions of the world are facing similar challenges to some extent. More and more firms are increasing their international business to overcome such constraints (see the 1st and 7th Observatory of European SME 2002). It might be a good strategy for SMEs as well as large enterprises to realize economies of scale in view of thus gaining competitive advantages by internationalizing their business vertically or horizontally.

Most of the managers thinking about which market they should enter and how this should be done might have a certain predisposition to decide in favor of a market with a culture which is similar to the domestic one. If this is not possible they can be assumed to prefer a low equity mode for those markets with a high cultural distance. This is supported by Grant Thornton’s survey from which it is concluded, for example, that European firms are less active in exporting to China due to the assumed or existing cultural differences (Grant Thornton’s 2003 IBOS). However, as shown above, there are many theoretical and empirical results supporting the opposite as well. There are also many firms that have been very successful by operating in new markets with quite different cultures, such as NOKIA, MOTOROLA, and SIEMENS, in China for instance. So cultural distance is a factor to be considered when entry mode decision is being made, but it is not a determinative one, and it should not be an obstacle of entering into a potential market with the right mode. But also some other factors such as firm size and international experience are not determinative unilaterally.

Due to being a multistage decision making process (Root 1994) the choice of foreign market entry mode must be addressed in accordance to that. This means that at least near-optimum solutions are only attainable if the relevant factors as well as their interactions and tradeoffs are considered from a dynamic perspective.

4.2 Implications for future research

4.2.1 Some trends in market entry mode theory

a) *A general or complete entry mode decision making model*

Most of the existing literature focuses on the exploration of those factors which influence the market entry mode decision and on the investigation of their impact on this decision. These studies mostly result in a partial behavior analysis (Dunning 1988). Being specific to some certain context and time period the cognitions of partial behavior analysis are limited and difficult to generalize. Restricting to selected factors may easily lead to wrong or inconsistent conclusions, just like one who touches only the leg of an elephant and claims that an elephant looks like a tree. This might also explain the above mentioned conflicting results. So, more general business strategy models are needed to analyze the market entry mode choice and to explain the genesis of corresponding decisions. Such a "general" or "complete" model should engage in at least individual, organizational, as well as institutional or societal level of analysis on their respective impacts on entry mode choice decision. Why so? Since entry mode choice is made directly by owners and/or managers, individually or cooperatively. Individuals' behavior and decision making are influenced and restricted by their preferences, their incomplete rationality (due to inadequate information, limited computational skills, as well as uncertainty), the defined roles provided by the organization, as well as the contingent environment around them. As argued by Evan (1993) organizational strategy, organizational structure and environment are in close relationship; good matching between environment and organizational strategy and structure is positively related to performance. Organizational behavior and individual decisions shape mirror the environment, and the environment affects individual as well as organizational decision and behavior.

b) *A dynamic or rather longitudinal entry mode decision making model*

We could detect that market entry mode choice was primarily regarded as a one-stage or a static decision making problem, primarily evaluated by the outcome of market entry mode decisions. But in fact in many cases it is a multiple-stage problem which involves at least a process of goal formulation, alternative strategies identification, and optimal or suboptimal strategy selection. A dynamic choice model which is more ambitious to emphasize cognitive processes in decision making involves a hierarchy of single decisions, each of which being an attempt to improve the outcome in the light of new information gained in previous decisions. Thus it provides a more realistic description of human problem solving than a static one does. Furthermore, firms having started to enter into a foreign market may change their original strategy due to learning effects or unscheduled developments. So, dynamic models which additionally consider longitudinal aspects are desirable to fully understand foreign market entry mode decisions. Some researchers, such as Pan et al. (2000), have realized this trend and tried some attempts but it still deserves more attention in future research.

c) *Comparative studies*

Market entry mode decision has been studied primarily as a profit maximization problem of industrial or non-industrial organizations (such as banks and hotels) which exist for profit and growth. However some non-industrial organizations, such as public universities or chambers of commerce, do not primarily exist for profit, expansion or growth. Market entry mode decisions of such organizations are normally not driven by profit maximization. The differences in entry mode decision making of profit and non-profit oriented organizations are worth to be investigated in depth. Furthermore market entry mode decisions might differ from time period to time period due to varying macro or micro contexts. Hence, intertemporal studies on this problem may induce a more precise understanding of market entry mode theory. To our knowledge there are few existing papers studying market entry mode choice from these two aspects.

d) *A multi-objective problem*

Besides profit maximization there are also some other goals, such as network building or information gathering, that may drive the market entry mode decisions of industrial organizations. These goals might be of conflicting nature and might have different priorities for the respective decision. So, if we redefine the problem by taking into account other or rather more objectives of foreign market entry we have to solve it in a quite new way. Recently Hajidimitriou et al. (2003) constructed a goal programming model to solve entry mode choice as a multi-objective problem. Future research might focus on solving this multi-objective problem by means of alternative economic tools.

4.2.2 Some research strategies for market entry mode theory

In this subsection we are going to discuss some research methodologies or topics which might be applied or explored in future studies.

a) *Case study methodology*

Almost with no exception previous empirical studies on market entry mode choice were based on a sample survey. Accordingly, the expressiveness of the corresponding analytical results strongly depends on the sample quality which is difficult to control, especially if strategic phenomena are considered. Another problem of such surveys is that the analytical results from a certain sample are generally valid only for the specific context represented by the sample. Thus the generalization of a market entry mode model being justified by a certain sample meets some difficulties. However, if we narrow our investigation to a specific type of firms, and if we confine to the associated environment we might get some deeper insights in entry mode decision making and some practical implications for managers as well.

b) *Computer simulation methodology*

Almost as neglected as case study methodology is the use of computer simulation. Entering into a new market normally entails a great commitment of resource which is difficult to be recovered or transferred when the measure fails due to adopting a wrong entry mode. Computer simulations on the performance consequence of market entry mode decisions in adequately specified contexts might help to reduce the risk of entry mode choice. Several studies suggest potentially fruitful applications of this methodology to decision making problems (Nagy et al. 1989; Nersesian 1990).

c) *Interdisciplinary methodology*

In the past, the problem on hand has been studied from different perspectives of economics, such as transaction cost economics (Anderson and Gatignon 1986), network economics (Coviello and Munro 1997), organization economics (Aulakh and Kotabe 1997; Madhok 1998), institution economics (Brouthers 2002; Lu 2002; Meyer 2000), as well as information and uncertainty (Müller 2002). However as far as we know only very few of the existent papers have studied this problem from an interdisciplinary perspective including, e.g., knowledge from sociology and behavior science (Herrmann and Datta 2002 inspected the impact of successor CEO characteristics on entry mode choice for instance). The existing backlog in this respect should be accounted for in future research.

Being a decision making problem market entry mode choice shares some similarities with other decision making problems. For example, in the "Art of War[2]" Sun Tzu articulated the conditions of successfully waging a war. He analyzed in detail both decision makers and organizational or institutional environments. Referring transdisciplinarily to such a prominent decision making problem may lead to new approaches for studying market entry mode choice. In addition the respective decisions might be studied axiomatically by less self-evident economic disciplines such as option theory (Li 2003).

d) *Sights on emerging markets*

A special but highly challenging topic within the research on market entry mode choice concerns emerging markets such as China, India, or Russia. Such markets are characterized by a huge or significantly growing market capacity, transiting economic and political systems, changing consumption behavior, distinct culture, and a favorable investment environment, offering a good chance of development, especially for SMEs. Some researchers have already conducted their activities in this direction (cf. e.g. Leung et al. (2003) and Nakos and Brouthers (2002)), but further research is still needed to reliably answer questions such as, how did European SMEs develop successful market entry mode strategies for China which is broadly assumed to be culturally distant.

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[2] The Sun Tzu Art of War is regarded as the "bible of military science" in China and the oldest military treaties in the world. It was widely translated into several languages (Giles 1910; Griffith 1988) and applied to various aspects of business administration such as marketing and human resource management as well as career building (see for this http://www.clearbridge.com/current.htm). But to our knowledge it has not been applied to the market entry mode problem so far.

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Table 1: An assessment of existing models and theories on market entry mode choice

Basic models	*References*	*Theory applied*	*Main arguments*	*Limitations*
SD model	Johanson and Paul (1975); Brooke (1986); Young et al. (1989)	Firm theory	Internationalization of SMEs is a long, slow and incremental process of cultural and geographical expansion and commitment.	Can not explain why some newly established firms start operation in foreign markets with high equity entry mode, such as foreign direct investment.
TCA model and extensions	Anderson and Gatignon (1986); Hill et al. (1990); Klein et al. (1990); Erramilli and Rao (1993)	Transaction cost theory, institution theory, and some others	Efficiency maximizing firms adopt entry modes which minimize transaction costs.	Measurement proves to be difficult, and there is no connection with corporate governance.
OLI model	Dunning (1977, 1980, 1988, 1995, 1998, and 2000)	International production theory, organization theory, internalization theory, location theory, and some others	The choice of market entry mode is determined by three sets of advantages: ownership, location and internalization advantage. The more advantages a firm possesses the more likely it adopts a high equity entry mode.	The static model ignores the impact of the firm objective, the decision maker, and the situational contingency surrounding the decision maker when the entry mode choice decision is made.
OC model	Aulakh and Kotabe (1997); Madhok (1998)	Organization theory	Entry mode decision depends on the deployment and the development of firm capacity.	Firm capacity is not limited to ownership boundaries and it is not justifiable to ignore both the decision maker and the social and political environment.
DMP model	Root (1994); Young et al. (1989); Kumar and Subramaniam (1997)	Behavior theory, contingency theory, and some others	Entry mode choice is regarded as a multi-stage decision making process taking into consideration some important factors.	Ignores the impact of the organization efficiency and the decision maker.