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IMPACT OF FIRM SPECIFIC RESOURCES ON MARKET ENTRY STRATEGIC CHOICE

DR. RUCHI AGARWAL*; MR. BABEET GUPTA**

*Faculty, Master Education Centre
Sharjah, UAE.
**Practising Marketing Professional,
Sharjah, UAE.

ABSTRACT

Selection of an appropriate market entry strategy is one of the most crucial decisions taken by firms entering into international business. A number of theories and conceptual frameworks have been put forward to predict which market entry mode would result in success. The resource based theory focuses on the role of the firm's resources and assets. The present research paper uses the resource based theory to provide insight on the different firm specific resources that affect the market entry strategies of Indian firms when entering the Gulf Cooperation Council countries market. Sultanate of Oman market was selected as a sample to make the present study truly representative of the entire Gulf Cooperation Council countries market. Based on the primary data that was collected using a self designed questionnaire by visiting the offices of the Indian firms in Oman, the analyses was done and the recommendations were made accordingly.

KEYWORDS: *Firm specific resources, Resource based model, Market Entry Strategy, Competitive advantage.*

INTRODUCTION

The booming levels of trade provide immense opportunities across the globe. The enormous growth and profit potentials in overseas markets and the desire to survive the onslaught of global competition has prompted an increasing number of firms in various countries to develop strategies to enter and expand into markets outside their home locations. Several frameworks have been presented outlining a company's decision to initiate the internationalization process. The resource-based model presents a holistic view of the firm in such a way that decisions like mode of entry are made not on a standalone basis, but within a coordinated framework of resources, capabilities and environmental contingencies. This study has been conducted to

analyze the significance of the firm specific resources on market entry strategic decisions for Indian firms when entering the GCC (Gulf Cooperation Council countries) market. A literature review of firm specific resources affecting market entry was conducted with the objectives of identifying candidate variables to include in our study. The need of the present study is further justified from the review of related literature given below.

LITERATURE REVIEW

A review of some studies conducted is presented.

Douglas S.P and Craig C.S. (1995) suggested an approach to developing international market entry strategies for firms from emerging market economies. According to them, the nature of firms is competence and the ease with which this can be leveraged internationally is a key factor influencing market entry strategies. Upstream competencies such as R&D or production skills as well as strategies grounded in these competencies are more readily leverageable across international markets .Competencies in downstream activities such as marketing or services which are typically more localised and require sensitivity, awareness of local market conditions may be less ready leverageable in international markets.

Contractor F.J. and Kundu S.K. (1998) conducted a study to find out what determines an organizational mode. They combined the concepts from transaction costs theory ,agency theory, corporate knowledge and organizational capabilities theories and found out that the choice of entry mode is determined by both country or environmental variables as well as firm specific variables. International experience and geographical reach of the global firm strongly distinguish the equity investment mode from the franchising mode. Organizational mode was influence more towards equity ownership in firms whose executives place a higher importance in control over daily management and quality. The importance of size as a strategic factor was not necessarily correlated to the propensity to use higher ownership modes.

Davis P.S., Desai A.B. and Francis J.D. (2000) conducted a study to determine market entry modes using an institutional theory framework. The study was conducted on U.S. based firms competing in the pulp and paper industry. They investigated the impact of external host country factors as well as internal isomorphic pressures placed on a SBU by its parent organization on entry mode choice. They tested the relationship between these factors and entry mode decisions ranging from wholly owned subsidiaries to exporting and licensing. They found that entry mode was dependent on two primary forces- the internal (parent) and external (host country) institutional pressures.

Koch A.J. (2001) conducted a study to examine the great variety of influences on the market entry mode selection (MEMS) process outcomes. Factors can be categorized as internal, external and mixed. Among the internal factors are company size/resources, management locus of control, experience in using MEMS, management risk attitudes, market share targets, calculation methods applied and profit targets. Company size limits the choice of entry method, loci of control affects manager's perceptions which in turn determine entry mode decision. Companies that have gathered a considerable knowledge of a region prefer to invest resources into business ventures in that region.

Tahir R. and Larimo J. (2004) conducted a study to investigate how the ownership specific variables, location specific variables and strategic motives have influenced the ownership structure choices by Finnish manufacturing firms in ten South and South Eastern countries. The research results indicate that large international experience, low cultural distance, large market size and high levels of economic welfare in the target country increases the probability of choosing the wholly owned subsidiary in order to undertake market seeking and efficiency seeking FDI's.

Ekeledo I. and Sivakumar K. (2004) conducted a research with two major purposes; developing and testing a resource based framework for entry mode choice and ascertaining the extent to which the determinants of foreign market entry mode choice in the manufacturing sector apply to foreign market entry mode choice in the non separable service sector. The findings of this study demonstrate that managers make entry mode choices based on considerations of firm specific resources that afford their firm competitive advantage in the target foreign market as well as for enhancing their resources. Thus, firm specific resources and nature of product appear to be good predictors of entry mode choice. Thus proprietary technology, experience, specialized asset, firm size, organizational culture and positive reputation increases the odds of selecting a full control mode.

Thus, a review of these studies helps to identify the candidate variables to include in the study, as firm size, international experience of the firm, proprietary technology, organizational culture; and superior product, process or management technology.

RESEARCH OBJECTIVES

The study seeks to answer the following research questions:

1. To study the significance of firm specific resources on the selection of market entry strategy for marketing products in international markets.

2. To study the significance of firm specific resources on the selection of market entry strategy for marketing Indian products in GCC markets.

3. To conclude and recommend appropriate market entry strategies for marketing Indian products in GCC markets based on the above study.

The following research hypotheses were formulated

Ho: M (rising levels of equity and control) will be negatively associated with var1, var2, var3, var4, var5 where,

Var1= greater firm size.

Var2= greater international business experience of the firm.

Var3= firm with a proprietary technology that is a sustainable competitive advantage in the host country.

Var4= firm with an organizational culture of the firm which is a sustainable competitive advantage in the host country.

Var5= firm with a reputation for superior product, process or management technology.

H1: M (rising levels of equity and control) will be positively associated with var1, var2, var3, var4, var5.

RESEARCH METHODOLOGY

To study the association of market entry strategy, i.e. the level of equity ownership and overall control with different firm specific resources, the dependent variable M (depicting the market entry strategy) is regarded as a polytomous measure depicting rising levels of equity ownership and overall control. The four market entry strategies considered are: Exporting, Management service contract, Joint Venture and Wholly Owned Subsidiary.

The present study focuses on market entry strategies adopted by Indian firms in the manufactured goods and separable services sector entering GCC countries, comprising of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates. Due to the convenience and ease of collecting data, the Sultanate of Oman market was selected as a sample to make the present study truly representative of the entire GCC market. Firms for the study were selected by using convenience and judgement sampling. In addition, firms selected for the study were the firms pursuing one of the four market entry strategies being studied by the researcher.

The primary data was collected using a self designed questionnaire by visiting the offices of the Indian firms in Oman. The questionnaire was administered to the key decision maker relating to international markets. Extensive secondary research in journals, books, magazines and websites revealed the significant host country variables affecting market entry selection process.

RESULTS AND DISCUSSION

An extensive literature review was carried out to study the significant firm specific resources for the selection of market entry strategy. Study revealed that the following firm specific factors need to be considered.

1. The average turnover of the firm is a factor for consideration when choosing an appropriate market entry strategy. Respondents were asked to rate the importance of this factor when choosing their entry strategy. The average turnover of the firm was considered as an important factor by all the Joint Venture firms. 88% of the Exporting firms considered it not important. 67% of the Management Service Contract firms considered it as less important and 33% of them considered it not important. All the Wholly Owned Subsidiaries considered it important.

To statistically examine the significance of greater firm size, for choosing a market entry strategy (M), the following hypotheses was developed:

Ho: M (rising levels of equity and control) will be negatively associated with var1, where,

Var1= greater firm size.

H1: M (rising levels of equity and control) will be positively associated with var1.

The primary data was put to hypothesis testing process by applying the T test to examine the association of greater firm size with M (rising levels of equity and control).

The t test value calculated for the above variable (represented by v1) at 30 degrees of freedom at 95% confidence level is shown in the table1. The t test table value at 30 degrees of freedom at 95% confidence level is 1.697.

TABLE 1

	Test Value = 4					
	t	df	Sig. (2-tailed)	Mean Difference	95% Confidence Interval of the Difference	
					Lower	Upper
V1	-3.981	30	.000	-.968	-1.46	-.47

Result: As per the calculations in table 1, the absolute value of t is greater than the table value of t for the variable, v1.

Hence, we reject the null hypothesis Ho and H1 is accepted.

2. To understand the relevance of greater international business experience of the firm for market entry choice, respondents were asked to rate how important was the number of years of previous experience in international business (V21) and number of years of experience in the particular industry in which the firm is operating (V22), as factors for market entry mode choice. The number of years since the firm has been involved in international business, was considered as important factor by 90% of the Joint Venture firms. 75% of the Exporting firms considered it not important and 25% of them considered it less important. All of the Management Service Contract firms considered it less important. 91% of the Wholly Owned Subsidiaries considered it as important whereas 9% of them considered very important.

The number of years of experience in the particular industry, in which the firm is operating, was considered as important factor by all of the Joint Venture firms. 88% of the Exporting firms considered it not important and 12% of them considered it less important. All of the Management Service Contract firms considered it less important. 91% of the Wholly Owned Subsidiaries considered it as important whereas 9% of them considered very important.

To statistically examine the significance of greater international business experience of the firm, for choosing a market entry strategy (M), the following hypotheses were developed:

Ho: M (rising levels of equity and control) will be negatively associated with var2, where,

Var2= greater international business experience of the firm.

H1: M (rising levels of equity and control) will be positively associated with var2.

The primary data was put to hypothesis testing process by applying the T test to examine the association of greater international business experience of the firm with M (rising levels of equity and control).

The t test value calculated for each of the above variables (represented by variables from v21 to v22 in ascending order) at 30 degrees of freedom at 95% confidence level is shown in the table 2. The t test table value at 30 degrees of freedom at 95% confidence level is 1.697.

TABLE: 2

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
V21	-3.702	30	.001	-.871	-1.35	-.39
V22	-3.724	30	.001	-.903	-1.40	-.41

Result: As per the calculations in table 2, the absolute values of t are greater than the table value of t for each of the variables, from v21 to v22. Hence, we reject the null hypothesis Ho and H1 is accepted.

3. The unique patent possessed by a firm, its trademark and recognition of its brand name in Oman are factors for consideration when choosing an appropriate market entry strategy. Respondents were asked to rate the importance of these factors when choosing their entry strategy. The unique patent(s) possessed by the firm (V31), was considered as important factor by 88% of the Joint Venture firms and 12% of them responded neutral. 100% of the Exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 45% of the Wholly Owned Subsidiaries considered it as important whereas 55% of them considered it neutral.

The Trademark of the firm (V32) was considered as important factor by all of the Joint Venture firms and 12% of them responded neutral. 88% of the Exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 63% of the Wholly Owned Subsidiaries considered it as important whereas 37% of them considered it neutral.

The Brand name recognition in Oman (V33), when choosing the current market entry strategy was considered as important factor by all of the Joint Venture firms. 50% of the Exporting firms considered it less important and 50% of them considered not important. All of the Management Service Contract firms considered it less important. 72% of the Wholly Owned Subsidiaries considered it as important whereas 10% of them considered it neutral and 18% of them considered very important.

To statistically examine the significance of firm with a proprietary technology that is a sustainable competitive advantage in the host country, for choosing a market entry strategy (M), the following hypotheses were developed:

Ho: M (rising levels of equity and control) will be negatively associated with var3, where,

Var3= firm with a proprietary technology that is a sustainable competitive advantage in the host country.

H1: M (rising levels of equity and control) will be positively associated with var3.

The primary data was put to hypothesis testing process by applying the T test to examine the association of firm with a proprietary technology that is a sustainable competitive advantage in the host country with M (rising levels of equity and control).

The t test value calculated for each of the above variables (represented by variables from v31 to v33 in ascending order) at 30 degrees of freedom at 95% confidence level is shown in the table3. The t test table value at 30 degrees of freedom at 95% confidence level is 1.697.

TABLE: 3

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
V31	-4.895	30	.000	-1.129	-1.60	-.66
V32	-4.499	30	.000	-1.032	-1.50	-.56
V33	-3.593	30	.001	-.806	-1.26	-.35

Result: As per the calculations in table 3, the absolute values of t are greater than the table value of t for each of the variables, from v31 to v33.

Hence, we reject the null hypothesis Ho and H1 is accepted.

4. To understand the relevance of a firm with an organizational culture of the firm which is a sustainable competitive advantage in the host country for market entry choice, respondents were asked to rate how important were factors like favoring open discussion (V41), encouraging experimentation and tolerating mistakes (V43), favoring promotion from within (V44) as factors for market entry mode choice. A firm encourages open discussion when choosing the current market entry strategy, was considered as an important factor by 88% of the Joint Venture firms. All of the exporting firms considered it not important. All of the Management service contract firms considered it less important. 91% of the wholly owned subsidiaries considered it as important whereas 9% of them considered it neutral.

A firm de-emphasizes status distinction (V42), when choosing the current market entry strategy, was considered as important factor by 67% of the Joint Venture firms and 33% of them responded neutral. All of the exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 91% of the wholly owned subsidiaries considered it as important whereas 9% of them considered it neutral.

A firm encourages experimentation and tolerates mistakes when choosing the current market entry strategy was considered as important factor by all of the Joint Venture firms. All of the exporting firms considered it not important. All of the Management Service Contract firms considered it less important. All of the wholly owned subsidiaries considered it as important. A firm favors promotion from within, when choosing the current market entry strategy was considered as important factor by all of the Joint Venture. All of the exporting firms considered

it not important. All of the Management service contract firms considered it less important. All of the wholly owned subsidiaries considered it as important.

To statistically examine the significance of a firm with an organizational culture of the firm which is a sustainable competitive advantage in the host country, for choosing a market entry strategy (M), the following hypotheses were developed:

Ho: M (rising levels of equity and control) will be negatively associated with var4, where,

Var4= firm with an organizational culture of the firm which is a sustainable competitive advantage in the host country

H1: M (rising levels of equity and control) will be positively associated with var4.

The primary data was put to hypothesis testing process by applying the T test to examine the association an organizational culture of the firm which is a sustainable competitive advantage in the host country with M (rising levels of equity and control).

The t test value calculated for each of the above variables (represented by variables from v41 to v44 in ascending order) at 30 degrees of freedom at 95% confidence level is shown in the table 4. The t test table value at 30 degrees of freedom at 95% confidence level is 1.697.

TABLE: 4

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	**df**	**Sig. (2-tailed)**	**Mean Difference**	**Lower**	**Upper**
V41	**-4.325**	**30**	**.000**	**-1.032**	**-1.52**	**-.54**
V42	**-4.697**	**30**	**.000**	**-1.097**	**-1.57**	**-.62**
V43	**-3.981**	**30**	**.000**	**-.968**	**-1.46**	**-.47**
V44	**-3.981**	**30**	**.000**	**-.968**	**-1.46**	**-.47**

Result: As per the calculations in table 4, the absolute values of t are greater than the table value of t for each of the variables, from v41to v44.

Hence, we reject the null hypothesis Ho and H1 is accepted.

5. To understand the relevance of a firm with a reputation for superior product, process or management technology for market entry choice, respondents were asked to rate how important were factors like protecting reputation for superior production (V51), superior management (V52), quality (V53) and technological innovativeness (V54) as factors for market entry mode choice. Protecting reputation for superior production process as a factor when choosing the current market entry strategy was considered as important factor by 67% of the Joint Venture firms and 33% of them responded neutral. All of the Exporting firms considered it not important. All of the Management Service Contract firms considered it not important. 18% of the Wholly Owned Subsidiaries considered it as important whereas 63% of them considered it neutral and 9% responded very important.

Protecting reputation for superior management as a factor when choosing the current market entry strategy was considered as important factor by all of the Joint Venture firms. All of the Exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 82% of the Wholly Owned Subsidiaries considered it as important whereas 18% responded very important.

Protecting reputation for superior quality as a factor when choosing the current market entry strategy was considered an important factor by all of the Joint Venture firms. All of the Exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 82% of the Wholly Owned Subsidiaries considered it as important whereas 18% responded very important.

Protecting reputation for technological innovativeness as a factor when choosing the current market entry strategy was considered as important factor by 88% of the Joint Venture firms and 12% of them responded neutral. 88% of the Exporting firms considered it not important. All of the Management Service Contract firms considered it less important. 45% of the Wholly Owned Subsidiaries considered it as important whereas 45% of them considered it neutral and 10% responded very important.

To statistically examine the significance of a firm with a reputation for superior product, process or management technology, for choosing a market entry strategy (M), the following hypotheses were developed:

Ho: M (rising levels of equity and control) will be negatively associated with var5, where,

Var5= a firm with a reputation for superior product, process or management technology.

H1: M (rising levels of equity and control) will be positively associated with var5.

The primary data was put to hypothesis testing process by applying the T test to examine the association of firm a firm with a reputation for superior product, process or management technology with M (rising levels of equity and control).

The t test value calculated for each of the above variables (represented by variables from v51 to v54 in ascending order) at 30 degrees of freedom at 95% confidence level is shown in the table 5. The t test table value at 30 degrees of freedom at 95% confidence level is 1.697.

TABLE: 5

	Test Value = 4					
					95% Confidence Interval of the Difference	
	t	df	Sig. (2-tailed)	Mean Difference	Lower	Upper
V51	-5.903	30	.000	-1.387	-1.87	-.91
V52	-3.535	30	.001	-.903	-1.43	-.38
V53	-3.535	30	.001	-.903	-1.43	-.38
V54	-4.792	30	.000	-1.097	-1.56	-.63

Result: As per the calculations in table 5, the absolute values of t are greater than the table value of t for each of the variables, from v51to v54.

Hence, we reject the null hypothesis Ho and H1 is accepted.

From the above analysis, we can see that each factor has relevance to a different extent for each market entry strategy. To specify a range of dependent variables and sub variables for each market entry strategy, a statistical tool, *Compare Means* was used. Means was calculated for each of the four market entry strategies to identify the dependent variables.

Thus, the above analysis reveals that firm specific resources are significant factors for the adoption of equity based market entry strategies like joint ventures and wholly owned subsidiaries. There were no significant firm specific resources for the adoption of non equity modes of Exporting and Management Service Contract.

The following factors were found to be significant for the choice of Wholly Owned Subsidiary market entry strategy: the average turnover of the firm; the number of years since the firm has been involved in international business; the number of years of experience in the particular industry in which the firm is operating; the Brand name recognition in Host country; firm encourages experimentation and tolerates mistakes; firm favors promotion from within; protecting reputation for superior management and protecting reputation for superior quality.

The following factors were found to be significant for the choice of Joint Venture market entry strategy: the average turnover of the firm; the number of years since the firm has been involved in international business; the number of years of experience in the particular industry in which the firm is operating; the Trademark of the firm; the Brand name recognition in Host country;

firm encourages experimentation and tolerates mistakes; firm favors promotion from within; protecting reputation for superior management and protecting reputation for superior quality.

RECOMMENDATIONS

1) Inappropriate selection of market entry strategy could lead to even exit for the firm from the foreign market. Different firm specific resources need to be considered when using equity modes of market entry strategies. The significant factors for joint ventures and wholly owned subsidiaries which have been found in this study need to be considered before venturing into international business.

2) To build economic and commercial relations, Indian firms can look forward to establishing closer relations with Investment Promotion Agencies and Chamber of Commerce in the GCC market. Such closer ties would help them understand and avail an opportunity, select an appropriate partner, and get significant information about local firms before adoption of a particular entry mode.

LIMITATIONS OF THE STUDY

The findings are based on a very limited sample size. The sample consists of firms entering only the Sultanate of Oman. The study focuses on four market entry strategies and some firm specific resources. Other variables may also be found to be relevant to the decision process.

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