Foreign Entry Mode Selection Strategies in Banking: An Issue of Control and Resources

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ABBREVIATIONS

FDI	Foreign Direct Investment
KMO	Kaiser-Meyer-Olkin Index
MNB	Multinational Bank
MNE	Multinational Enterprise
MNL	Multinomial Logit
R&D	Research and Development
TCA	Transaction Cost Analysis

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DECLARATION

1. I am responsible for the work submitted in this thesis.
2. This work is composed by me.
3. This work has not previously been submitted within a degree programme at this or any other institution.
4. All verbatim extracts have been distinguished and the sources specifically acknowledged.

Signature: A. Pitt

Date: 17/6/97

ABSTRACT

The increase in foreign acquisitions and joint ventures, which have followed recent environmental changes in the banking sector, suggest that banks have modified their internationalization strategies. Motivated by this observation and the lack of research which could explain the foreign entry mode selection strategies of banks, this study has developed and tested a framework of foreign entry mode selection in banking.

Drawing on existing literature, the study argues that managers select entry routes based on their desire for control and need for complementary resources. These motives are products of the evaluation of host country, target market and firm-specific factors. This two-stage model has been tested by collecting data through mailed questionnaires sent to 600 bank managers. Using multinomial logit and multiple regression, the validated data from 124 usable questionnaires were analyzed.

The results suggest that bank managers' motives for control and resources can determine the selection of foreign direct investment (FDI) entry modes. Control motives differentiate greenfield investments and acquisitions from joint ventures, and resource motives differentiate acquisitions and joint ventures from greenfield investments. When both motives are considered together, one entry mode is determined. However, findings have shown that these motives are not a result of the evaluation of the foreign venture under investigation, rather, they reflect mangers' general preferences for control and resources.

Drawing on these findings, this piece of research has proposed a single-stage model where these preferences are evaluated concurrently with factors related to the specific entry. Testing this model has shown that besides bank managers' general preferences for control and resources, host country risks, target market conditions and the bank's product and network strategies also influence the choice of entry modes.

By considering both control and resource issues, this study has managed to integrate previous research on entry mode selection and comprehensively investigate all FDI entry modes. In addition, it has provided a paradigm of integration of the macro-level economic theories on internationalization of banking with firm-focused theories. This has been achieved by consolidating Dunning's eclectic theory with entry mode selection themes such as transaction cost analysis, barriers to entry, internationalization process and network coordination and configuration.

CHAPTER 1: INTRODUCTION - MOTIVATION AND OBJECTIVES OF THIS STUDY

Foreign entry mode selection in the banking sector is a firm strategic decision evaluated in the context of a specific industry. The information-intensive nature of banking and the lack of patent and copyright protection for banking innovations place constraints on the internationalization routes, limiting options to foreign direct investment (FDI), namely greenfield investments, acquisitions and joint ventures (Grubel 1989; Enderwick 1989).

Foreign entry mode is an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country (Root, 1987). As such, entry mode choice is a very complex issue. This is due to the large number of often conflicting forces involved in distinguishing the most appropriate entry mode from among the multiple alternatives available to the firm.

A study of the choice of entry modes must investigate the effects of factors which contribute to the selection among the available entry routes. Previous research has shown that these factors must be examined in the framework of the firm and the market conditions in the host country (Anderson and Gatignon 1986; Hill et al. 1990).

Root (1987) has classified entry modes into three major categories: exporting, contractual and direct

investments. Foreign direct investment entry modes, the interest of this study, involve the ownership of production units in the host country. Wholly-owned investment offers full ownership to the parent firm. Such investment can be built from nothing (greenfield investment), or can be result from the acquisition of a local firm. Joint venture is an arrangement whereby equity is shared with one or more local partners.

In this study greenfield investment is defined as a start-up investment where the parent firm owns at least 95% of the shares (Franco 1971; Stopford and Wells 1972; Gomes-Casseres 1989). Acquisition is defined as the purchase of a controlling stake (above 50%) in an existing company (Kogut and Singh 1988; Hoschka 1993). A Joint venture is defined as any venture in which two or more partners each owns enough equity to be able to exercise some degree of control over the venture (Stopford and Wells 1972; Yiannopulos 1983; Root 1987; Dunning 1993). The minimum equity to confer some degree of control is set at 5%, which is the minimum level required officially to be considered as a significant shareholder in a venture (Gomes-Casseres 1990).

Sections 1.1 will discuss the motivation for this study and section 1.2. will discuss the objectives of this piece of research and the thesis outline.

1.1. MOTIVATION FOR THE STUDY

Previous research on entry mode selection has not managed to investigate all foreign direct investment entry routes available to the firm. Furthermore, this functional research problem has not been applied in the banking sector. Consequently, bank managers have not been offered a systematic method of evaluating entry mode decisions.

During the last decade, the banking industry has been experiencing significant environmental changes triggered by the deregulation of financial services, the relaxation of foreign bank entry regulations in many countries, trade agreements within major geographic regions and improvements in telecommunications and technology.

The changing banking environment prompted banks to modify their internationalization strategies in order to adapt to the new challenges, to maintain or improve their competitiveness. The increase in cross-border acquisitions and joint ventures observed thereafter has suggested a linkage between the banks' internationalization strategies, their new environment and their choice among modes of entry into foreign markets. The new trends in banking will be discussed in more detail in section 3.2.1.

In the light of these observations and the declaration of entry mode as a frontier issue in international marketing (Wind and Permluter 1977), entry mode selection in banking becomes an important area of research from a theoretical and managerial perspective.

1.2. OBJECTIVES AND THESIS OUTLINE

Even though the objectives of this study are discussed in detail in Chapter 4, they will be introduced here in order to familiarize the reader with the aim of this research.

The main objective is to investigate fully the entry mode selection strategies in banking. To achieve this objective, a comprehensive framework of entry mode selection will be developed and tested.

This model should be able, simultaneously, to consider all three FDI entry modes: greenfield investments, acquisitions and joint ventures. To achieve this, an entry mode selection mechanism will be developed drawing on control and resources. Furthermore, this model will consider a comprehensive set of factors and themes related to entry mode selection and internationalization of banking.

In achieving its objectives, the study will proceed as follows:

In Chapter 2, the problem of study, namely the entry mode selection in banking, is positioned within the literature on the internationalization of the firm. Theories which are relevant to this problem are discussed and a method of integrating these theories to address entry mode selection in banking is identified.

In Chapter 3, the literature on internationalization of banking and entry mode selection are reviewed. The factors studied and themes employed in these two research areas are identified in the context of entry mode selection. In addition, the methodology adopted by relevant studies is evaluated.

This review has identified two main issues. These are, that entry mode selection is a matter of control and resources, and that the literature on the internationalization of banking has not studied entry mode selection.

In Chapter 4, the strengths, weaknesses and gaps in the literature are discussed and the research questions are developed. An entry mode framework in banking is proposed which builds on a comprehensive set of factors and themes identified by previous studies, and which addresses all three foreign direct investment entry modes.

To operationalize this model, hypotheses are developed which link firm and environment-specific factors to entry modes through the bank's desire for control and need for resources. Perceptual measures are also developed to operationalize the factors included in this model.

Chapter 5 discusses the methodology for collecting data from bank managers through mailed questionnaires. In addition, it validates the research design and reduces the data set into meaningful factors which can be used for

testing the entry mode selection model in banking.

Chapter 6 tests the proposed model through multinomial logit and regression analysis. The results have suggested that this model is partially valid. Managers' motives for control and resources do determine entry mode selection; however, these motives reflect managers' general preferences rather than being fruits of the evaluation of the venture under investigation.

As a result, a new model is developed and tested which directly evaluates the effects of firm and environment-specific factors on entry mode selection. The results suggest that this is an appropriate model for studying the selection of entry modes in banking.

Chapter 7 summarizes the findings of this study, stresses the study's contributions to theory and practice, evaluates the quality of the research and proposes areas for future research.

CHAPTER 2: BANK ENTRY MODE SELECTION IN THE CONTEXT OF THE INTERNATIONALIZATION OF THE FIRM

2.1. INTRODUCTION

The purpose of this chapter is to introduce the reader to the theoretical nature of the problem to be studied, the foreign entry mode selection in banking. Discussion will touch on a number of issues.

Section 2.2 will specify the problem to be investigated in a theoretical context. In section 2.3 the internationalization of the firm will be discussed, with particular emphasis on the themes relating to entry mode selection in banking, namely internalization, transaction costs, Dunning's eclectic theory and the process model. Finally, in section 2.4, the topic is positioned within the relevant theories.

2.2. IDENTIFYING ENTRY MODE SELECTION IN BANKING WITHIN THE INTERNATIONALIZATION OF THE FIRM

The choice of foreign entry mode selection in banking is an application of an internationalization-related functional issue, namely, the foreign entry selection in a particular industry. This problem is located within the broad area of research dealing with how firms expand in foreign markets (Johanson and Valhne 1977; Dunning 1979; 1981; Buckley 1988; Hennart 1989).

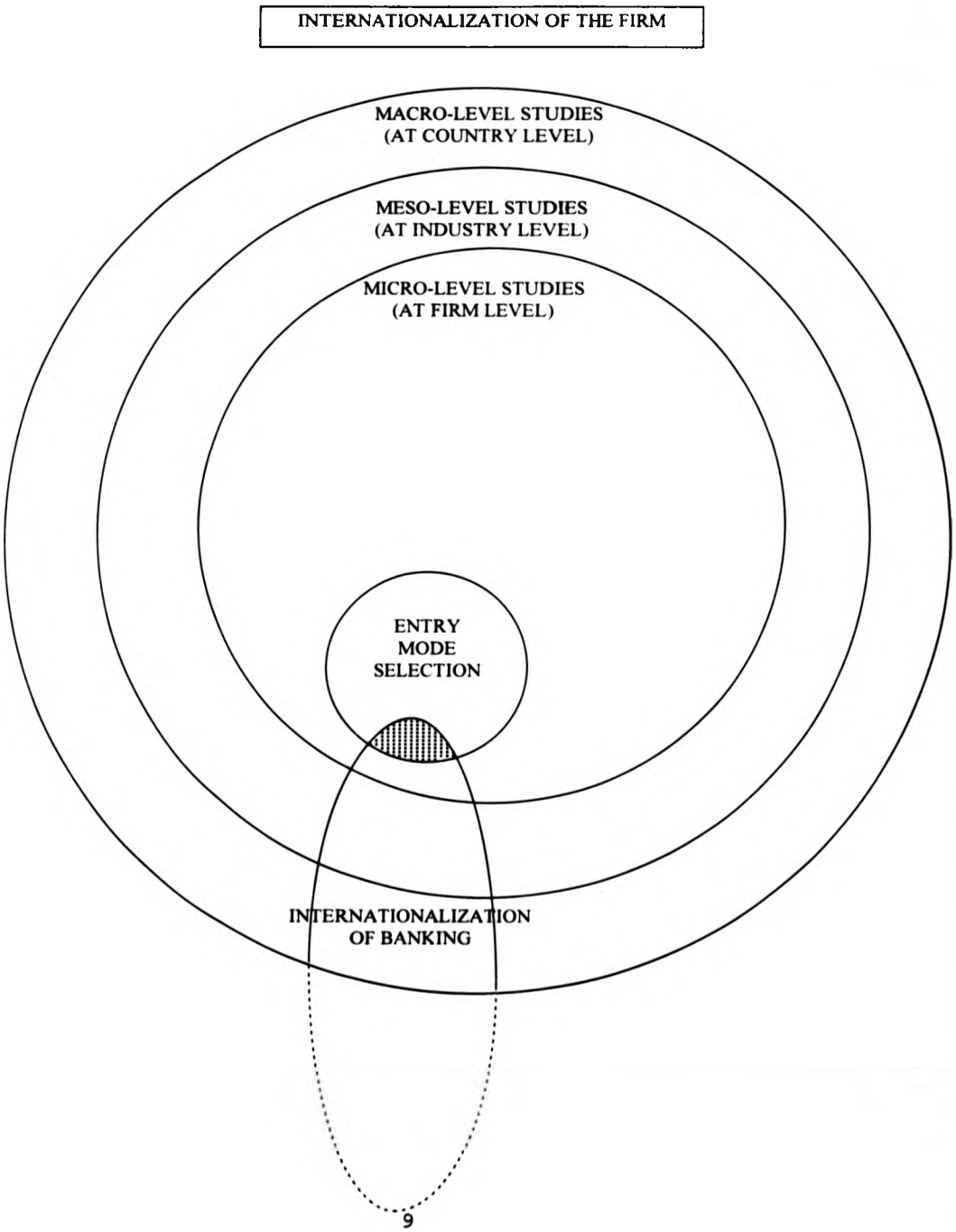
Research on the internationalization of the firm has argued that firms pursuing foreign expansion are concerned about the organizational form of their foreign operations, due to the different costs and benefits associated with each entry route. The internalization theory, for example, has linked the creation of the multinational enterprise (MNE) to the firm's organizational selection (Buckley and Casson 1976; Casson 1987).

Figure 2.1 maps the foreign entry mode selection field of research and the banking field of research in the context of the internationalization of the firm. This broader area of literature can be divided into three levels of analysis associated respectively with the country, the industry and the firm. These levels of analysis will be discussed in the next section.

Foreign entry mode selection falls exclusively within the internationalization of the firm. However, this area of study is a firm-specific strategy and as such has been studied at firm level, incorporating themes related to the behaviour of the firm. The literature on entry mode selection will be discussed in detail in Chapter 3.

Research on banking is a broad field. However the internationalization aspect of banking has been concerned with patterns of foreign direct investment and production and has drawn on a broad set of economic-related internationalization theories applicable at country or industry level. Only two firm-related theories have been

FIGURE 2.1. IDENTIFYING THE ENTRY MODE SELECTION IN BANKING WITHIN THE INTERNATIONALIZATION OF THE FIRM LITERATURE



applied in banking, namely Dunning's eclectic paradigm and the process model. However, as discussed in Chapter 3, neither of these themes has directly addressed entry mode selection.

It should be no surprise, therefore, that these two research areas have very little overlap. This study will broaden this degree of overlap by investigating how banks enter foreign markets.

To understand how this problem should be studied, the literature related to entry mode selection and the internationalization of banking must be reviewed. However, before we do this, the literature on the internationalization of the firm is briefly reviewed in order to discuss the theories which are related to entry mode selection in banking. Once the reader has been exposed to these theories, a more detailed discussion will follow about approaches to studying entry mode selection in banking.

2.3. THE INTERNATIONALIZATION OF THE FIRM

The expansion of the firm in foreign markets has been viewed from two different perspectives, as a process (which has been mostly applied to the early stages of international activity, namely exporting, agency and sales subsidiary), or as engagement in foreign investment and production. Firms choose different methods to internationalize because they have different priorities

accruing from the nature of their particular industry and their own internal capabilities. For example, firms in many service industries ignore the early stages and engage in foreign production, due to the inseparability of production and consumption (Boddewyn et al. 1986). Further, large firms find it more appropriate to avoid the process of internationalization because they are able to tolerate the risks associated with the commitment of large resources (Johanson and Valhne 1990).

The theories developed to address the internationalization of the firm are concerned with one or more of the following questions: **why do firms internationalize? where do they go? and what type of ownership do they seek?**

Due to the different questions asked and the different level of analysis adopted, the field is characterised by theoretical broadness but can be subdivided into three strands.

Theories studying international trends at a country level follow a macro-economic approach often related to trade, location and exchange rate effects. Such concepts have been adopted to explain foreign investment patterns. Theories considering the interaction between firms at an industry level, or relationships between groups of firms and location, follow a meso-economic approach. These theories draw on industrial economics and game theory. The explanation of the existence and organization of the

multinational is based on such concepts. Finally, theories developed to explain the international growth of individual firms employ micro-economic thinking and/or behavioral modelling which are founded on the theory of the firm.

Table 2.1 shows the main theories developed to explain the internationalization of the firm. For each theory its level of analysis, the main research question(s) asked, and the theoretical studies which contributed to their advancement are presented. Observing the year of publication of each of the studies, it is evident that relevant theoretical developments were initiated in the 1970s and early 1980s. This could be a response to the increasing pace of internationalization of firms and industries observed in the 1960s and 1970s (Dunning 1993).

The theoretical advancement of each concept indicates that, at the firm level, a small number of theories have dominated the literature. These are the **internalization theory, transaction cost analysis, Dunning's eclectic theory and the process model**. The ability of these theories to address firm-specific issues, in addition to aggregate investment issues such as why firms internationalize and where they go, may be the reason for their dominance.

More recently, the interests of scholars have shifted from the macro-economic view towards studying the individual firm, due to differences observed in the strategies and behaviour of firms towards internationalization (Dunning 1993). The firm-level

Table 2.1. Internationalization theories

Level	Research Question	Theory	Authors
Macro	Why FDI	Kojima's theory of FDI	Kojima (1978;1982), Ozawa (1982)
Macro	Why FDI	Aliber's theory of FDI	Aliber (1970)
Macro	Why FDI	Rugman's diversification	Rugman (1979)
Meso	Why MNE	Hymer's theory	Hymer (1960; 1968)
Meso	Why MNE	Hymer-Kindleberger-Caves	Kindleberger (1969), Caves (1971)
Meso	Why MNE/ Ownership	Internalization	Buckley and Casson (1976; 1985), Rugman (1980), Casson (1987), Buckley (1990; 1991)
Meso/	Why MNE/Where/	Dunning's eclectic theory	Dunning (1979; 1981; 1988; 1993)
Micro	Ownership		
Micro	Ownership	Transaction cost analysis	Williamson (1975; 1981; 1985) Teece (1977; 1981; 1986) Hennart (1982; 1988; 1991)
Micro	Where	Vernon's product cycle	Vernon (1966; 1974), Hirsch (1967)
Micro	Where/why international	Exchange of threat	Graham (1975; 1978; 1985)
Micro	Where/why international	Following the leader	Flowers (1976)
Micro	What is the process of commitment in a market	Process model	Johanson and Valhne (1977; 1990), Bilkey (1978), Cavusgil (1980), Welch and Luostarinen (1988)
Micro	What is the process of market selection	Psychic distance	Valhne and Wiedersheim-Paul (1973) Johanson and Valhne (1977)

approach offers more scope for research because these strategies, in the context of international competition, are important facilitators of the internationalization. Theoretical development at industry or country level cannot address these issues. Theories addressing foreign direct investment have a narrow approach which could not facilitate extensions to cover other issues related to the firm. Such theories focus on location and do not consider adequately the ownership advantages of the firm. Kojima (1978) has argued that investments in less developed countries do not require ownership advantages. Similarly, market power proponents such as Hymer (1960), assuming collusion or monopolistic conditions in an industry, have not considered the firm's ownership advantages as a necessary pre-condition for the existence of the MNE.

The present study focuses on the foreign entry mode selection strategies of the individual multinational bank (MNB). As such, among other issues, this study is concerned with the degree of ownership a bank seeks in foreign markets. Consequently, those theories which address the issue of ownership are contributors to the conceptual foundation of this study. However, since the choice of entry modes is part of the decision-making process within the firm, the contributor internationalization theories should be able to address the ownership problem at firm level.

Table 2.2 classifies the theories based on the level

of analysis adapted and the questions asked. Most of the theories are concerned with the location of investment or production (boxes 1,2,3) and are not addressing organizational issues at all. The theories interested in the creation of the MNE (boxes 4,5,6) focus on the concept of market power, which cannot explain patterns of ownership (Hymer 1960). Only the internalization theory addresses ownership issues due to its focus on market transactions. Even though the theory is meso-economic it can be of use,

Table 2.2. Theories of internationalization classified by questions asked and level of analysis adopted

Level / Question	Firm	Industry	Country
Where	1. •Product Cycle •Psychic Distance •Exchange Threat •Following Leader •Dunning	2. •Dunning	3. •Kojima's Theory •Aliber's Theory •Rugman's Divers
Why MNE	4. •Dunning	5. •Hymer's Theory •HKC Theory •Dunning 5 •Internalization	6.
Ownership	7. •TCA •Process Model •Dunning	8. •Dunning	9.

because theories which are relevant to the subject of this study, such as Dunning's eclectic theory and transaction costs analysis, are related to internalization. More discussion of these relationships follows in section 2.4.

The theories which are directly associated with entry mode selection are classified in box 7. All three theories can address the issue of ownership at firm level and could therefore be employed to explain entry mode selection.

The subsequent discussion will focus on the following theories: the internalization theory, the transaction cost analysis, Dunning's eclectic theory and the process model. First, the economic theories will be discussed, beginning with internalization which is a more general theory, continuing with transaction cost analysis which is a special case of internalization, and ending with Dunning's eclectic theory, a combination of economic theories. Finally a behavioral theory, the process model, will be discussed.

2.3.1. *The Internalization Theory*

The development of internalisation theory (McManus 1972; Buckley and Casson 1976; 1985; Buckley 1983; Casson 1987) was motivated by Hymer's seminal work (1960). Hymer argued that the orthodox theory of international trade and capital movements did not explain the foreign operations of multinationals.

Proponents of internalization have attempted to

explain the creation of the MNE, addressing the question of why firms pursue foreign production rather than carrying on transactions at arm's length. Internalization theory posits that the growth of the firm relative to markets is determined by decisions the firm has made to establish internal organizations rather than using market intermediaries. The firm grows by creating markets according to the balance between the benefits and costs of each internalization decision. Due to the costs flowing from the conduct of business in imperfect markets (e.g. those markets with a limited number of agents who can act opportunistically), it is often more efficient and less expensive for the firm to use internal structures rather than market intermediaries to serve a foreign market.

Since its development, proponents of the theory have attempted to upgrade it to encompass the changing realities of the world economy. For example, Buckley (1990), recognising the effects of competition on the internalization decision, has incorporated a recursive interaction of internalization with market power in accordance with Hymer's (1968) heuristic explanation (for a detailed discussion see Casson (1989)). Buckley has argued that internalization decisions determine the number of firms in an industry, which in turn determines whether firms will pursue diversification or forward/backward integration strategies. These outcomes then feed back into further internalization decisions. This framework, he suggests, can be used to provide the theoretical ground for

business strategy. Moreover, Buckley (1991), gearing the theory towards the firm-level, has linked internalization benefits to competitive advantage. He has argued that internalizing key inputs creates a significant barrier to entry for other firms in an industry, and that internalizing international markets can reduce the overall tax bill of a firm relative to those firms which use arm's length transactions.

The theory is seen as a basis on which proponents could build to explain the complex phenomena of international business (Buckley 1990). It is considered general enough to be used as a foundation for developing other special explanations by imposing restrictions on the theory's generalisations. For example, Buckley (1988) has argued that by specifying the different types of costs and demand conditions that arise in internal and external markets, one can study industries with high transaction costs.

However, the theory has a number of limitations. First, it is too general to be applied in any specific context without modification. This may explain why it has so seldom been applied. To apply it, one has to restrict it to a very specific domain. For example, Dunning (1993) has argued internalization can be applied in a specific industry only if the costs and benefits are identified at operational level.

In addition, the theory studies the internalization of

markets in a sequential fashion up to the point where the benefits of further internalization are outweighed by its costs (Buckley and Casson 1976). This approach does not recognise the benefits arising from having a mixture of ownership arrangements in a firm's network, as the business strategy proponents suggest (Porter 1986; Harrigan 1988).

Furthermore, besides the competitive advantages resulting from multinationality, other advantages such as the firm's know-how or reputation are treated by the theory as given and static (Dunning 1993). In view of the fact that the growth of a firm is a dynamic process this assumption is questionable. The firm develops new competitive advantages as it grows, and these can affect its subsequent internalization decisions. For example, the firm's current know-how which may affect future internalization decisions could be the result of developing internal organizations in different foreign markets.

Finally, even though proponents strive to update the theory and establish it as the core theory of international business, it has limitations due to its economic nature. MNEs are affected not only by economic changes but also by social and political changes which are difficult to incorporate into a general economic theory. Efforts to include such elements in the theory may diffuse and fragment it, thus risking its clarity and simplicity.

Since internalization is a general economic theory, it has been combined with other theories to develop multi-theory frameworks, or has been conditioned by proponents to

develop more focused sub-theories. Dunning's eclectic paradigm (1979; 1981), for example, is partially driven by the concept of internalization. Further, Kogut and Zander (1993), focusing on the costs associated with the transfer of tacit knowledge, have developed a theory of the MNE which is based on the firm's ability to transfer its knowledge across borders.

The foregoing discussion suggests that internalization theory is too general to be applied to an operational problem. Its main deficiency when it comes to entry mode selection is its failure to recognise important motives of the firm, for example, the generation and exploitation of ownership advantages. The theory will be indirectly considered in this study, however, since transaction cost analysis is a special case of internalization.

2.3.2. *Transaction Cost Analysis*

Independently of the "internalization" strand of thought, Williamson (1975; 1981) extended Coase's (1937) insights into why firms exist. Coase has argued that firms exist to reduce the costs associated with operations and pricing mechanisms. Williamson (1975) has identified three factors - bounded rationality, opportunism and asset specificity - which give rise to transaction costs (i.e. the cost of searching, contracting, negotiating and policing agreements). According to Williamson, when firms

perceive such costs, they develop hierarchies because markets are not considered efficient at carrying such transactions.

Transaction cost analysis (TCA) begins with the assumption that markets are competitive, i.e. that there are many potential suppliers and that market pressures minimize the need for monitoring and enforcing supplier behaviour. Under these conditions arm's length transactions are favoured. When markets fail however, i.e. when the implicit neoclassical assumptions of perfect knowledge and perfect enforcement are not realised (Teece 1981; Dunning and Rugman 1985), market transaction costs increase and the firm replaces external suppliers with its own employees.

From the TCA perspective, the most important determinant of market failure is the presence of proprietary assets, namely assets and skills which have been accumulated over time in the firm by operating in certain markets. These assets are susceptible to transactions (Williamson 1986, Klein et al. 1990). Hennart (1982) has argued that proprietary assets, like patents, copyrights and information, cannot be transacted in open markets because competitive advantage, which derives from these assets, can be easily lost when partners act opportunistically. For example, Davidson and McFetridge (1985) have found empirically that firms investing in research and development avoid transfers of technology through market transactions.

TCA takes a defensive approach by emphasizing the

costs involved in market transactions and the appropriateness of reducing such costs through hierarchies. Internalization, on the other hand, recognises in addition to the costs that benefits flow from integration. Such benefits include economies of scope and the development of barriers to entry. For example, Yiannopulos (1983), applying internalization in banking, has argued that banks internalize related business units, such as retail and corporate units, in order to capitalize on synergies. This discussion indicates that TCA is a special case of internalization.

TCA considers the behaviour of the firm in uncertain environments. This allows non-economic factors such as cultural and political issues to be taken into account. A Japanese firm, for example, may draw on cultural values not available to others, such as teamwork, to develop an internal market which can be more efficient. The pressure to establish an internal market can be further reinforced by the costs involved in carrying transactions with local agents due to cultural differences. Additionally, Anderson and Gatignon (1986) have employed TCA to link the uncertainty associated with doing business in risky countries with the selection of organizational structures.

The focus, simplicity and power of the theory led to it being applied in a number of fields. Hennart (1988;1989;1991), for example, has extended the theory to explain why and when an organizational form will be chosen

in preference to its various alternatives. He has explained, why firms form joint ventures, select acquisitions or pursue different types of contracts. He subsequently confirmed his theoretical extensions through empirical studies of Japanese entries into the United States (Hennart 1991;1993). The application of transaction costs in entry mode selection will be discussed in more detail in Chapter 3.

In addition, a number of studies have used TCA to explain vertical integration decisions (Anderson and Weitz 1986; Heide and John 1988; Klein et al. 1990). For example, Anderson and Weitz (1986) have used TCA to explain the firm's decision to make or buy marketing services. They have linked the decision to the size of transaction costs. A firm unable to monitor performance, doing small transactions and inducing free-riding opportunities to suppliers would choose to vertically integrate its marketing.

Despite its strengths, the TCA theory is susceptible to criticism for its failure to evaluate the firm's network as a whole, rather than a particular activity (Cantwell 1991). Even though it can explain why a firm can replace a particular market, it cannot explain cases where firms select common governance of multiple activities. For example, TCA can explain what happens when the firm is concerned with the quality of the transferred product, but it cannot give answers to the firm's desire to gain economies from a network of operations.

Another weakness of TCA is its failure to consider other costs. High transaction costs in international markets are not a sufficient pre-condition for the existence of the MNE. There are cases where firms, in their attempt to internalize market failures, will incur higher organizational costs rather than market transaction costs (Hennart 1991). From this point of view, a complete theory should consider simultaneously both types of cost. Dunning (1991) has argued that a firm can be more efficient than failing markets because its organization is superior to that used in the market. This argument stresses the importance of tailoring the organization of the firm to its strategies (Chandler 1962; Galbraith 1977), a concept not considered by the theory. Therefore, a purely economic approach is not adequate to provide a complete explanation of the organizational form of the MNE (Madhok 1997).

In summary, the ability of TCA to consider the behaviour of the firm and the existence of transaction-specific assets has contributed to its application in a number of internationalization problems. TCA's main weakness is attributable to its focus on costs.

By contrast, the next theory to be discussed, Dunning's eclectic theory, is a very comprehensive framework which could easily complement TCA. This is because it recognises that the firm has motives which are not just cost-related.

2.3.3. *Dunning's Eclectic Paradigm*

Dunning's eclectic paradigm (1979;1981;1988) combines different approaches to international production in order to explain the existence of the MNE, the location of foreign production and the type of ownership assumed. The paradigm has an economic perspective capable of application to all three levels of analysis, macro, meso and micro.

Dunning's paradigm stipulates that multinationality is associated with the existence of three types of advantages: ownership-specific, location-specific and internalization-specific (OLI advantages).

Ownership advantages take the form of "privileged possession of intangible assets as well as those which arise as a result of common governance and cross-border value-added activities" (Dunning 1993); they are a prerequisite for multinationality, because they enable the MNE to compete in a foreign market with both local and foreign firms. These advantages derive from the size and the established position of the corporation.

Internalization-specific advantages arise when the MNE chooses to create internal markets instead of relying on arm's length external market channels. These benefits "reflect in the greater organizational efficiency of hierarchies or their ability to exercise monopoly power over the assets under their governance" (Dunning 1993). These advantages are realised when there exist market imperfections and failures both in factor and goods

markets. Industries characterised by proprietary resources are more likely to benefit from internalization advantages because they result in internal synergies (Yiannopulos 1983).

Location-specific advantages result from "the utilization of ownership advantages in a foreign location" (Dunning 1993). Even though there are differences between countries which can confer advantages on the MNE, such as, country regulation, these advantages cannot be realised unless the multinational can compete effectively in the foreign market. Accordingly, location advantages are not sufficient for developing multinational operations, but confer benefit only when these advantages are combined with ownership and internalization advantages. For example, a firm may not choose an attractive market as location for foreign production (e.g. Japan), unless it has ownership advantages over incumbent firms which it can effectively exploit by internalizing the market.

Even though the framework allows ownership advantages to act both as barriers to entry and as sources of market power, Dunning accords priority to internalization by arguing that firms gain an edge over competitors by having advantages which accrue from internalization rather than from reducing competition (Dunning 1988). This approach, is quite broad, since it allows interaction between the firm and its macroeconomic environment through the configuration of the three type of advantages.

It is reasonable to say, therefore, that the framework stands at the intersection of macroeconomic theory, industrial organization theory and the theory of the firm (Dunning 1989), which makes it a powerful tool for explaining the internationalization of the firm. These attributes of Dunning's eclectic paradigm have attracted many scholars who have employed the framework to explain the internationalization of particular industries (Gray and Gray 1981; Dunning and McQueen 1981; Enderwick 1989), the patterns of foreign production (Smith and Rebne 1992; Dunning 1993) or even the organizational form of a firm's foreign activity (Talaga et al. 1985; Agarwal and Ramaswami 1992). The application of Dunning's eclectic theory to banking will be discussed in detail in Chapter 3.

Dunning's paradigm, like the other economic theories, is more interested in identifying and evaluating factors that affect the level and pattern of international production rather than factors affecting the strategic action of firms in achieving such production. As such, even though it acknowledges the significance of the firm's characteristics, its focus is on country and industry characteristics. For example, the theory is more interested in explaining why the pattern of international production of Japanese MNEs is different from that of German MNEs, rather than why the location strategy of Honda is different from that of Phillips. In other words, the theory does not recognise that firms are faced with different strategic options and needs for international production. Rugman

(1979) has claimed that firms view identical investment opportunities differently, depending on their existing portfolios and their attitude towards uncertainty.

The theory can explain the behaviour of a particular firm, because it recognises the advantages arising from common ownership of activities across borders and the existence of competitive advantage. What the theory does not consider from the strategic point of view, are the motives of firms for pursuing international production which are not associated with the possession of competitive advantage. Such motives comprise the desire to protect or gain competitive advantage over rivals, or to exploit longer potential benefits arising from international production. Kogut (1983), for example, has distinguished between competitive advantages which exist prior to establishing foreign production and those that arise as a consequence of such production. The lack of a strategic posture is also evident from the framework's failure to consider the international competitive environment and its effect on the firm's evaluation of its ownership advantages. Such factors are treated as given in the theory.

Responding to this criticism, Dunning (1993; 1994) attempted to enhance his framework by adding a strategic change variable, in order to explain shifts in the configuration of the OLI advantages derived from changes in the a firm's strategies and vice versa. He has attempted to capture the firm's strategic process by drawing attention

to the dynamic responses of individual firms to international production. However, the framework has not been empirically tested at firm level.

Being a synthesis of approaches at different levels, Dunning's paradigm is the most complete theory of internationalization. However, because it is an economic approach like the other theories discussed so far, it does treat internationalization as a rational decision. This, however, may not always be the case, given the subjective behaviour of the decision-maker (Cyert and March 1963).

The next theory to be discussed regards internationalization as a behavioral process affected by perceptions of key actors in the firm.

2.3.4. *The Process Model*

Unlike the theories of the MNE examined above, the process model is a behavioral approach which explains the process of internationalization rather than the direct engagement in foreign production. The process school of thought (which is of Swedish origin) has its theoretical base in the behavioral theory of the firm (Cyert and March 1963; Aharoni 1966) and the theory of the growth of the firm (Penrose 1959). It attempts to explain the progress of a firm in international markets by studying the stages of internationalization.

The model posits that the internationalization of the

firm is an incremental process (Johanson and Valhne 1977; 1990). This process evolves in an interplay between the development of knowledge about a foreign market(s) and an increasing commitment of resources to foreign market(s). Market knowledge is assumed to affect decisions regarding the commitment of resources to foreign market(s) and the way current activities are performed, in a cyclical causal process.

The model has grown out of empirical research on Swedish firms, and therefore one could expect its validity to be limited to countries like Sweden. However, empirical research has shown that the model could be applied in different settings such as to Wisconsin export firms (Bilkey 1978; Cavusgil 1980;1984), Hawaiian firms (Hook and Czinkota 1988), German firms (Dichtl et al. 1984) and Australian firms (Barrett 1986). Discussion in Chapter 3 will demonstrate that the model has been successfully applied to explain the internationalization of banking and entry mode selection.

The application of the model in empirical studies has revealed a number of shortcomings which have been acknowledged by Johanson and Valhne (1990). The model's significance is limited to the early stages of internationalization since its deterministic sequential nature excludes other options, such as initiating local production without going through exporting or sales subsidiary. Large firms, or those which gained considerable

experience in markets with similar conditions, are expected to commit resources in bigger steps, bypassing certain stages of the process. Moreover, the applicability of the model was found to be problematic in rapidly changing industries such as technology-intensive sectors (Young 1987) and industries with rapid competitor reaction (Buckley 1990).

Critics of the conceptual aspects of the model have argued that by assuming that firms lack information and perceive risks, the model implies that a firm will follow along a stepwise process regardless of whether strategic decisions in this direction are made or not. This conclusion cannot be supported, given the variety of internationalization approaches adopted by firms (Cavusgil 1980).

In addition, Reid (1983) has supported the view that market commitment is contingent on market conditions, and therefore, the transaction costs approach is superior to the process model in explaining the diversity and variation of the internationalization behaviour. Even though there is substance in Reid's (1983) argument, the different nature of the two models suggests that they are complementary rather that competing. The dynamic and behavioral nature of the process model could be applied to transform the evaluation of transaction costs to a more dynamic process compared with the static approach currently taken. The evaluation of transaction costs should be different after the firm accumulates market experience, which in turn could

facilitate transitions in the organization mode.

Comparing the process model to Dunning's framework one can observe that the former rests on behavioral theories, whereas the latter assumes that the decision-maker has access to perfect information. The two theories complement each other, since the eclectic paradigm cannot explain shifts in organization mode or MNE activity without considering the effects of additional knowledge on the perceived advantages.

In summary, a review of the internationalization theories indicates that even though there has been substantial development in the field, the majority of them are concerned with the location of foreign direct investment or the emergence of the MNE. These theories have not answered questions related to the way firms compete in international markets. Two theories directly address internationalization at firm-level; transaction cost analysis and the process model. These theories both examine the issue of ownership but their approach is quite different, because TCA is an economic theory concerned with costs whereas the process model is a behavioral theory interested in the firm's reaction to uncertainty.

Dunning's eclectic theory, which explains foreign production, confronts the issue of ownership and furthermore, recognises the significance of the firm's motives. Due to its broader scope as compared to other themes, Dunning's paradigm can be utilised to link meso and

macroeconomic approaches to theories concerned with the individual firm.

Thus far, the internationalization theories which are relevant to entry mode selection in banking have been discussed. This background allow us to discuss in more detail how this issue should be approached.

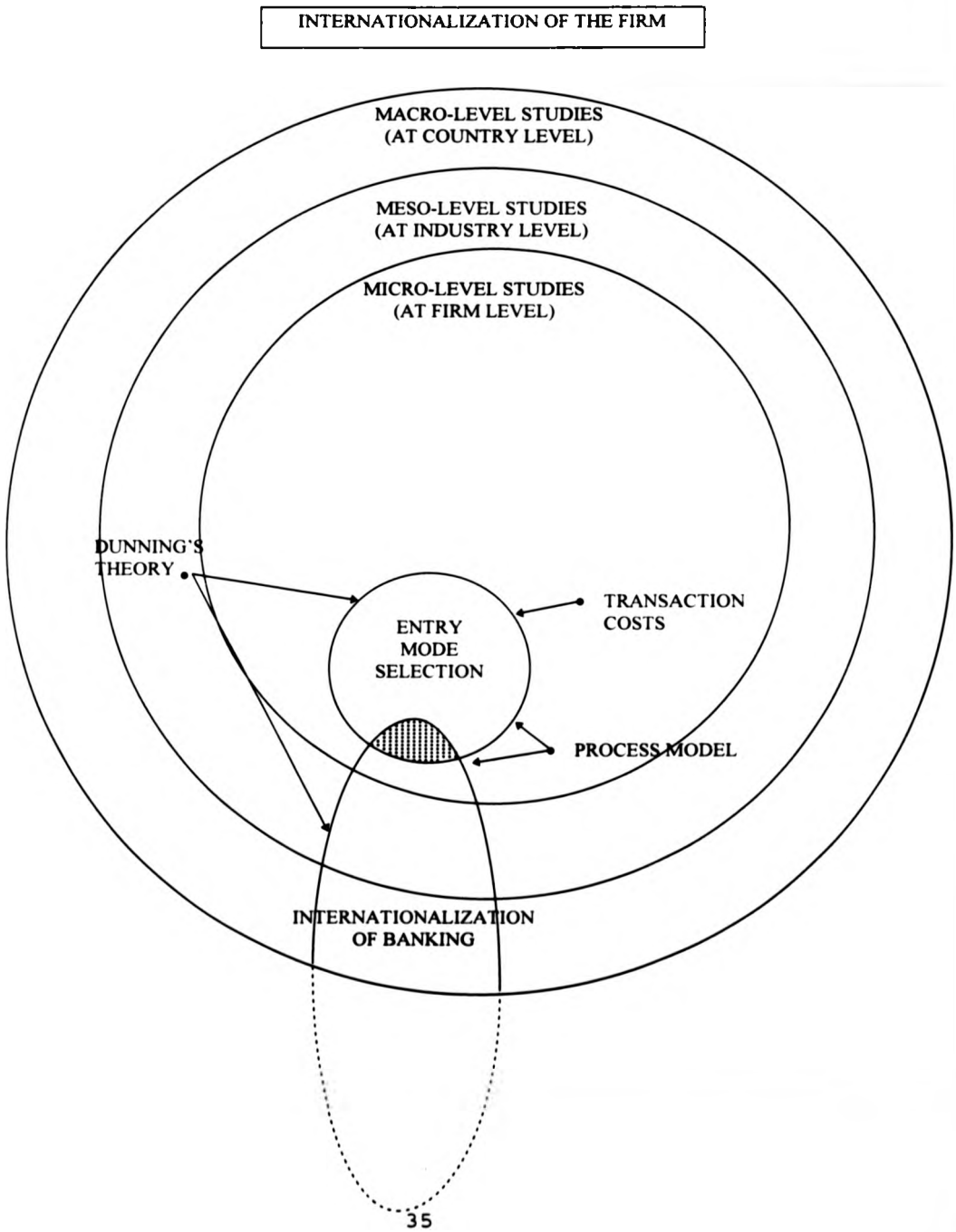
2.4. ADVANCING ENTRY MODE SELECTION IN BANKING

The literature on entry mode selection is concerned with the organization of the foreign activity. Given that the MNE has a number of modal options, this field of research is concerned with the problem of selecting the entry mode which maximizes the risk-adjusted returns (Anderson and Gatignon 1986) by simultaneously considering the costs and benefits resulting from the organizational arrangement. Being a firm-specific strategy, entry mode selection emphasises the behaviour of the firm in the face of uncertainty. Due to this focus, it is linked to transaction cost analysis and the process model. For example, the costs of transferring transaction-specific assets in a foreign market can be evaluated employing TCA logic. More discussion of the use of these themes in the literature on entry mode selection will follow in Chapter 3. This literature indicates that the internationalization of banking has been studied through the lenses of a number of themes. However, the most complete explanation is the

application of Dunning's theory. This approach has given a micro-level view to bank internationalization and insights about the bank motivations.

Drawing on the above discussion, Figure 2.1 can be upgraded to include the internationalization theories which are relevant to entry mode selection in banking. This is shown in Figure 2.2. In order to address the FDI entry mode selection in banking, the theories identified above must be integrated in a single framework. Since this issue is concerned with entry mode strategies, the conceptualization of the framework must be driven by the literature on entry mode selection. As Figure 2.2 shows, entry mode selection in banking is positioned at micro-level, the relevant themes must therefore be applied at this level. The factors affecting entry mode selection in banking are industry-specific and must be extracted from the internationalization of banking literature. These factors must be consolidated with the TCA logic and the process model. For example, a bank's possession of proprietary resources will be linked to entry mode selection through the theme of transaction costs. Discussion of Dunning's theory has argued that it can facilitate this linkage because it can capture ownership advantage at firm-level. This theory therefore, can integrate the theories on internationalization of banking with those on entry mode selection because it relates to both research areas.

FIGURE 2.2. A POSITIONING OF ENTRY MODE SELECTION IN BANKING



After discussing the method of integrating the literature so as to address entry mode selection in banking, the next Chapter will review the literature on the internationalization of banking and the literature on entry mode selection and theoretically formulate how banks should select entry modes.

CHAPTER 3: INTERNATIONALIZATION OF BANKING AND ENTRY MODE SELECTION - SEARCHING FOR COMMON GROUNDWORK

3.1. INTRODUCTION

In the previous chapter theories of the internationalization of the firm were discussed and the key issues of this study were located within these theories.

The aim of this chapter, is first, to demonstrate that foreign entry mode selection is a very important problem in the banking industry; secondly, to discuss the application of internationalization theories in banking and identify the factors which can be utilised to explain entry mode selection; and finally, to discuss the concepts which drive the literature on entry mode selection and the themes which link factors to entry mode characteristics.

The chapter is organised as follows: in section 3.2 the literature on the internationalization of banking is reviewed. The fundamental structural changes in the industry which triggered a re-evaluation of the industry priorities are considered, and the entry mode selection strategies are identified as a paramount research issue. Discussion then focuses on the application of Dunning's theory which has dominated the literature. In section 3.3, the entry mode selection literature is reviewed. First, control and resources are identified as the concepts which drive the entry mode selection. Then the themes employed and the factors linked to each concept are discussed.

3.2. INTERNATIONALIZATION OF BANKING - EVALUATION OF THE RESEARCH GIVEN THE CURRENT TRENDS IN THE INDUSTRY

This section will start with a historical overview of the internationalization of banking. Emphasis will be placed on current trends in the industry. This will be followed by a review of the literature on bank internationalization in the context of the new trends.

3.2.1. *A historic overview of the internationalization of banking - Post-war developments*

The internationalization of banking goes back to the merchant bankers in Italy during the Middle Ages. These early banks, through the development of agents located in different countries, were offering services to traders such as remittance of money and settlement of accounts (Jones 1989). The real internationalization of banking, however, come in the second half of the nineteenth century as a result of colonial expansion. By the beginning of this century, British, French, Dutch and German banks operated over 2300 overseas branches (Vollmer 1974), but this growth of European international banking activity was interrupted by World War I.

From 1920 to 1930 U.S. banks started their international expansion as they played a major role in European reconstruction and provided services to foreign trade in Europe and Asia. However, the Great Depression,

which caused the collapse of world trade and international finance, put a hold on the internationalization of banking as banks suffered losses from massive loan defaults.

Further international expansion did not occur until the 1960s, with the development of the Eurocurrency and Eurobond markets (Gardener and Molyneux 1990). This development marked the beginning of the modern era in international banking. From 1961 to 1978 the total number of foreign bank branches and agencies worldwide (excluding Africa) increased from 1860 to 4080 (Pecchioli 1983). During the 1960s and 1970s the dominant banks were the U.S. banks. This is a reflection of the focal role of the United States in the postwar international and financial trading system, and also of the rapid growth and expansion of the U.S. multinational firms. In the 1980s the debt crisis associated with developing countries forced many banks, mostly U.S ones, to consolidate their network of international operations.

In the late 1980s however, new trends in the banking industry were initiated by the relaxation of foreign bank entry regulations in many countries (e.g. Australia, Canada, European Union countries, Eastern European countries, China, Philippines), the deregulation of financial services which allowed banks to operate in most financial areas, and the evolution of technology in communications and computer systems. These trends have significantly changed the international strategies of banks (Campayne 1990). Banks have hastened to exploit

international opportunities in countries undergoing deregulation. At the same time, they have rationalised their network of operations on a global basis, given the integration of the regional financial centres into a global market and the existence of synergies among their international operations due to technological progress (Walter 1988; Gardener and Molyneux 1990). As a result, a phenomenal increase in the geographical spread of operations has been observed. Campayne (1990), examining the increase in the foreign operations of 18 multinational banks, observed a growth from 284 operations in 1968 to 787 in 1987.

The increase in foreign operations has facilitated the interpenetration of national and international markets which was perceived as a prerequisite for maintaining market share and growth in competitive markets (Pecchioli 1983). The interpenetration of markets led to linkages between activities in different markets and as a result, MNBs had to move from individual market servicing strategies towards more integrative strategies to cope with competition. For example, Deutsche Bank, according to an executive, is integrating its operations to global units focusing on distribution (The Banker, October 1995, pg.46). Squeezes in margins forced MNBs to focus on core strengths, to rationalize production and delivery of services, to pursue economies of scale and to diversify product ranges to achieve economies of scope.

For example, in the light of deregulation in European

banking, in the late 1980s banks based in member states had to re-evaluate their strategies in the European context by establishing strategic outposts in key markets and exploiting their core strengths to capitalize on opportunities in Europe. For instance, Deutsche Bank committed itself to become a pan-European bank. By acquiring operations in Italy, Spain and U.K, it tried to "build up positioning advantage in countries with strong potential and exploit synergies accruing from developing a European network of diverse financial activities", as a senior executive stated (Buckley et al. 1992).

Historically, greenfield investments through subsidiary companies or branches were the main methods of entering foreign markets (Grubel 1977; Yiannopulos 1983); but the recent changes in the industry have ignited a large number of acquisitions and joint ventures. A table compiled by Hoschka (1993) on the number of banking acquisitions in the European Union indicates a steady annual growth of sixty percent over the period 1985-1991. Compared to other industries, acquisitions in the financial services sector are the largest both in number and value (Hoschka 1993). Joint ventures are also popular modes of entry particularly in emerging markets such as Eastern Europe and the Pacific Rim, which involve higher than average investment risks. A study by Buckley et al. (1992) has found that the joint venture was the entry mode preferred by most European bank executives. In addition, a number of equity alliances have

been recently reported in Europe (e.g. Royal Bank of Scotland and Banco Santander, Credit Commercial de France and Banco de Commercio de Industria, Dresdner and Bank National de Paris). A study by the Bank of England has reported that about 18% of the cross border-entries in Europe (excluding greenfield investments) were equity alliances (Bank of England Quarterly Bulletin, August 1993).

The foregoing discussion has argued that there is a close link between the international strategies of banks and entry mode selection. Joint ventures and acquisitions have been increasing dramatically and this can be attributed to the changing strategic priorities of MNBs. However, have bank researchers responded to this change by studying these developments? Has the entry mode selection been adequately studied in the banking industry?

In the next section the literature on the internationalization of banking will be reviewed and the above questions will be answered.

3.2.2. *Review of the literature - A need for extension?*

The rapid internationalization of banking in the 1960s and 1970s has attracted the interest of scholars who have attempted to explain the creation of the MNB and patterns of international expansion. More precisely, research on the internationalization of banking has identified the motives

that drive multinational banks[1] into foreign markets. Furthermore, this research has identified which characteristics of these banks contribute to their ability to compete abroad successfully with local banks which used to enjoy competitive advantages over foreign banks. As Grubel (1977) has put it, "What is the source of comparative advantage accruing to a U.S bank in a place like Singapore, which is in competition with local banks having obvious advantages in their familiarity with local customers, capital markets, employees and government?"

To answer the above questions, a number of theories have been developed by bank researchers trying to explain the location of FDI and the creation of the MNB. These theories draw predominantly on internationalization theories. Table 3.1, summarizes these explanations and indicates their relationship to the theories of internationalization discussed in Chapter 2. The following discussion will review these theories.

3.2.2.1. Macro and meso-level studies of bank internationalisation

Studies at macro-level draw predominately from international trade and international investment theories to explain the location of foreign banking investment. Some of these studies try to apply general internationalization

[1] A multinational bank (MNB) supplies banking services through at least one office located outside the country in which it is incorporated (Yiannopulos 1983).

Table 3.1. Main hypotheses on the internationalization of banking

Authors	Research Question	Level	Related internationalization theory
Brimmer and Dahl (1975)	Where	Macro	Bank specific
Aliber (1976)	Where	Macro	Aliber's theory of FDI
Kelly (1977)	Where	Macro	Bank specific
Fieleke (1977)	Where	Macro	Rugman's diversification theory
Grubel (1977)	Why	Meso	Hymer-Kindleberger-Caves
Rugman (1981)	Why	Meso	Internalization theory
Gray and Gray (1981), Yiannopulos (1983)	Where/Why/ Ownership	Meso/ Micro	Dunning's eclectic theory
Ball and Tschoegl (1982), Ursacki (1992)	Commitment	Micro	Process model

theories. Aliber (1976) for example, applying his own theory of foreign direct investment (Aliber 1970), has argued that location advantages are created by the differences in loan-deposit spreads across countries, caused by the existence of barriers to trade in money. Some other studies attempt to explain particular banking phenomena. For example, Brimmer and Dahl (1975) have argued that as home clients expand overseas, banks follow them. The bank objective is to provide clients with the banking services required and to prevent foreign banks from servicing them. Banks that fail to serve their multinational clients adequately can lose advantage both abroad and at home. The "follow the client" motive can explain the second wave of U.S. MNB expansion between 1959 and 1963 (Robinson 1972).

Furthermore, Kelly (1977), trying to explain the major investment of US banks in Europe in the 1960s and early 1970s, has contended that government regulation on capital flows was the main motive in the selection of the foreign location.

Overall, national regulation is hypothesised to be the main factor stimulating FDI, to the point that Lee (1974) has claimed that "the internationalization of banking could be solely explained by regulation". However, empirical work has demonstrated that besides regulation, other factors affect the selection of location, such as volume of trade (Goldberg and Saunders 1980; Brealey and Kaplanis 1996; Fisher and Molyneux 1996), market size

(Terrel 1979; Goldberg and Johnson 1990), exchange rates (Khoury 1979; Goldberg and Saunders 1980; 1981), and interest rate (Khoury 1979; Goldberg and Saunders 1980). For example, Goldberg and Saunders (1980), studying the growth of U.S. banks in the U.K. from 1961 to 1978, found that U.S. trade, Eurodollar rate and the exchange rate were significantly affecting bank growth. This study drew on data published by the Bank of England and the Federal Reserve Bank in Washington.

In general, most of the studies have explained U.S bank expansion overseas by employing aggregate data published from governmental organizations. The emphasis on U.S. banking is attributed to data availability and the scale of foreign expansion by U.S. banks during the 1960s and early 1970s.

Meso-level studies, concerned with the creation of the MNB, have drawn on industrial organization theories by applying either a market power or a market imperfection approach. Grubel (1977), applying the Hymer-Kindleberger-Caves theory, has argued that the existence of surplus entrepreneurial resources such as marketing know-how, technology and commercial intelligence are instrumental in facilitating the internationalization of banking. He has argued that such advantage is necessary for the MNB to compete effectively in a foreign market. This is because the foreign entrant must differentiate its products, and can use existing knowledge residing at head-office at

minimum cost.

Rugman (1981), takes a different perspective, founded on the proprietary nature of some of the ownership advantages of the bank. Realising that international banking transactions involve significant transaction costs due to imperfections in foreign financial markets, he has argued that the MNB acts as a vehicle for the internalization of these imperfections. He stresses the information-intensive nature of banking, arguing that information skills which are embodied in a bank can be used at marginal cost in other markets. Additionally, competitors cannot access such information through open market transactions.

Neither of the meso-level explanations discussed above can sufficiently explain the whole phenomenon of the creation of the multinational bank. Rugman (1981) has not recognized other ownership advantages additionally to information. MNBs can internalize additional resources such as technology, management and marketing skills (Yiannopulos 1983). As such, the model cannot adequately explain the different degrees of internationalization among banks from the same country.

Alternatively, Grubel (1977) has not acknowledged the benefits arising from the internalization of ownership advantages. As a result, he has not explained why a bank should establish foreign operations rather than transacting in open markets.

A combination of the two hypotheses could explain the

formation of the MNB, but this would not be able to justify the selection of the foreign location. Consequently, a complete explanation of the internationalization of banking has to combine both meso and macro theories.

Unfortunately, there are no studies, theoretical or empirical which attempt to build on the application of internalization or market power theories in banking. This can be explained by the emphasis placed on Dunning's eclectic theory which is a more complete explanation of the internationalization of the MNB.

Neither Macro nor meso theories in isolation can adequately explain the internationalization of banking. This is because each stream concentrates on different questions. To explain bank internationalization, the advantages of the foreign location and the advantages of the bank as compared to local competition must be evaluated jointly. The existence of imperfections in a market, for example, does not necessarily provide incentives to a bank to establish operations there. A bank will choose that market only when the market facilitates the exploitation of a bank's ownership advantages to a greater extent, than do other foreign markets.

Similarly, macro-level studies can identify sources of location-related advantages of the MNB. However, since the theories cannot explain why the firm should prefer international production over cross-border transactions, they do not explain the creation of the MNB.

Empirical research on bank internationalization has primarily studied the effects of location-related factors on foreign bank expansion. The focus on location is attributed to the ease with which aggregate data on banking could be obtained compared to data on individual banks or groups of banks.

The foregoing discussion suggests that most studies of bank foreign activity applied theories of the internationalization of the firm to explain the selection of location or the decision to invest. Each explanation of the internationalization of banking, however is focused on the distinct characteristics of the industry such as its information-intensive nature and its susceptibility to regulation. Furthermore, some studies aim to explain particular phenomena associated with the internationalization of banking, such as the expansion of US banks in Europe during the 1960s and 1970s.

The foregoing discussion has also indicated that no general theory was developed up to the early 1980s to explain completely the FDI phenomenon, but rather, that there are many diverse hypotheses accounting for distinct patterns of FDI, or providing partial explanations of the formation of the MNB.

However, the application of Dunning's theory, which followed the macro and meso-level studies, is a more comprehensive explanation of foreign bank activity. The lack of further theoretical development and the focus of

empirical studies on the different types of advantages is an indication of this.

The following discussion will focus on Dunning's eclectic theory.

3.2.2.2. Application of Dunning's eclectic theory in banking

The application of the eclectic theory has managed to capture a diverse set of hypotheses under its umbrella. As such, a large number of factors affecting bank internationalization have been identified under the three forms of advantage: ownership, location and internalization. Table 3.2 presents a comprehensive list of these factors grouped under the three advantages. This section will not discuss all these factors, but rather will demonstrate the nature of each type of advantage in banking. The discussion will deal first with each advantage separately, and will then evaluate the whole framework.

The major ownership advantages identified are the MNB's motivation to exploit reputation, its expertise, its proprietary customer information and economies of scope and scale. A foreign venture which can access information and commercial intelligence residing in the MNE's network can make more accurate assessments of the risks involved in lending and the needs of the target market. For example, a U.S. bank's foreign operation, dealing with U.S enterprises overseas, can make lending decisions based on information

Table 3.2. Ownership, location and internalization advantages

Advantage	Author
Ownership Advantage	
Possession of customer information	Aliber 1984; Tschoegl 1987; Campayne 1990.
Reputation	Yiannopulos 1983; Tschoegl 1987.
Marketing know how	Yiannopulos 1983; Cho 1985.
Economies of scope	Tschoegl 1987; Casson 1989; Enderwick 1989; Campayne 1990.
Economies of scale	Yiannopulos 1983; Gray and Gray 1981; Enderwick 1989.
Managerial and financial Resources	Yiannopulos 1983; Campayne 1990; Cho 1985.
Experience	Gray and Gray 1981; Nigh et al. 1986.
Knowledge of host country	Ball and Tschoegl 1982; Cho 1986.
International experience	Yiannopulos 1983; Cho 1986.
Size	Gray and Gray 1981; Cho 1985; Campayne 1990.
Location Advantages	
Differential regulation	Gray and Gray 1981; Dale 1984; Casson 1989; Goldberg and Johnson 1990.
Reserve ratio	Yiannopulos 1983; Grubel 1989.
Clients from home	Sabi 1988; Fisher and Molyneux 1996.
Ethnic minorities	Yiannopulos 1983.
Operating costs	Gray and Gray 1981; Campaign 1990.
Market size	Sabi 1988; Goldberg and Johnson 1990.
Local banking opportunity	Cho 1985; Night et al. 1986.
Relative interest rates	Yiannopulos 1983; Aliber 1984; Cho 1986.
Access to local currency	Gray and Gray 1981; Yiannopulos 1983.
Agglomeration factors	Campayne 1990; Brealey and Kaplanis 1996.
Internalization Advantages	
Improvement in Commercial intelligence	Gray and Gray 1981; Yiannopulos 1983; Tschoegl 1987.
Sharing of skills	Enderwick 1989; Campayne 1990.
Reduction in variability of earnings	Grubel 1977; Campayne 1990; Casson 1989.
Efficient intra-bank transfers	Gray and Gray 1981; Campayne 1990; Hoschka 1993.
Global asset and liability management	Yiannopulos; Tschoegl 1987; Campayne 1990.
Efficient account management	Gray and Gray 1981; Campayne 1990.
Sharing investment	Gray and Gray 1981; Yiannopulos 1983.

residing at head-office due to its close conduct with the parent client. Furthermore, this bank can differentiate its services to U.S nationals overseas. Grubel (1989) has argued that American Express offices overseas, knowing the needs of the American tourists, provide an environment that makes such tourists feel at home. According to this author, retrieving such information costs very little since the information resides in the MNB, and most importantly, there is no market where competitors can buy it.

Table 3.2 indicates that the important ownership advantages in banking are intangible due to their information-intensive nature. Such information is specific to the bank and therefore, if it is used properly can result in competitive advantages. However, transaction cost theory suggests that MNBs are susceptible to transaction costs due to the intangible nature of their important resources, and that therefore protection of these resources is necessary. This linkage of ownership advantages with transaction costs suggests that such factors can be employed to explain the entry mode selection. For example, MNBs motivated to exploit differential access to information when servicing a foreign market should select high control entry modes.

A number of studies, applying Dunning's theory in banking, have treated ownership advantages as given (Gray and Gray 1981; Cho 1986), and assumed that the MNB has the resources to compete in foreign markets. For example, Gray and Gray (1981) have stated that ownership advantages

"derive from size and the established position of the corporation".

This assumption is an oversimplification of the problem because MNBs compete with other MNBs in international markets. In this case, size and position are not adequate ownership advantages because all competitors posses them.

Another reason for not studying ownership advantages, is the difficulty of operationalizing them due to their intangible nature. For example, Cho (1986) has used the parent bank's size to represent ownership advantages. He has claimed that this variable is positively related to the resources which a bank can commit to its foreign operations. This measurement is not adequate, however, because size alone cannot reflect a bank's marketing skills for example.

Banks can achieve internalization advantages from a number of sources. Gray and Gray (1981) have suggested a comprehensive list of such sources which are shown in Table 3.2. These authors have viewed the MNB as a network of operations and have conceived the benefits arising by exploiting synergies among the different international operations of the MNB. They have argued for example, that the MNB's ability to control internal fund flows can reduce external transaction costs, can facilitate global asset and liability management, so that they can shift funds globally to their most profitable use.

Yiannopulos (1983), taking a similar approach, has argued that information production is characterised by economies of scale and learning, and that therefore an extensive network of operations can enhance the quality and reliability of the information residing at the MNB.

In general, the internalization advantages identified in Table 3.2 accrue when an additional market is internalised. The benefits are significant when the links between operations are managed efficiently. This argument implicitly acknowledges the importance of coordination and control in reaping internalization advantages. According to business strategists (Porter 1986; Hill et al. 1990), under such conditions the MNB should prefer high control entry modes. This discussion demonstrates that the eclectic theory can address issues related to the international strategic behaviour of the individual bank and particularly, that it can explain the entry mode selection.

Studies applying Dunning's theory to banking have considered internalization as an offensive strategy. They have regarded the MNB as a means of reaping internal synergies. However, there is a defensive dimension in internalization as well. MNBs can internalize a new venture in order to protect their ownership advantages which can easily be disseminated or undervalued in open markets (Rugman 1981).

The defensive explanation has not been considered adequately by bank studies despite the information-intensive nature of the industry. This can be attributed to

the approach of the eclectic theory, which focuses on the exploitation of advantages rather than the prevention of risks. Empirical research on this topic has followed a similar approach. Cho (1986) for example, has approximated internalization advantages through the economies achieved from sharing resources internally. This factor has been measured as the amount of assets and liabilities transacted within the MNB's network. Cho has not found internalization advantage to be a significant explanation of bank foreign investment, which he has attributed to the operationalization of the variable. In general, the measurement of internalization advantages is a difficult task because they are not easy to identify (Dunning 1993).

Once the ownership and internalization advantages are identified, the configuration of the operations can be considered. This is because synergies and ownership advantages can be constrained or facilitated from location factors. As Table 3.2 shows, sources of location advantage can result from different national regulatory frameworks, lower operating costs and the presence of existing clients.

Favourable regulation has been supported as an important motive for bank foreign presence (Dahl 1975, Fieleke 1977, Goldberg and Saunders 1980). Regulation differentials could take the form of exchange controls, tax brakes and reserve requirements. The growth in Euromarkets, for example, has been explained by the ability of the multinationals to offer competitive pricing due to

favourable regulation on reserved funds (Yiannopulos 1983). In general, MNBs should prefer investing resources in the most attractive locations. This can be achieved by shifting funds to their most profitable use through the MNB's international network (Yiannopulos 1983).

The above argument demonstrates the importance of considering the configuration of all three advantages (ownership, location and internalisation) to explain the internationalization decisions of a bank. However, empirical research has paid disproportionate attention to location advantage (Nigh et al. 1986; Jain 1986; Sabi 1988; Campayne 1990; Brealey and Kaplanis 1996). This can be attributed to the availability of aggregate data of country level (e.g. business presence away from home, regulation, interest rates and production). For, example Nigh et al. (1986), studying the U.S. banking activity overseas at industry level, have examined factors such as the presence of other U.S. firms, regulation and local opportunities. They have not studied any location factors which are specific to an individual bank, e.g. interest rate differentials, market competitiveness and network configuration, because they have argued of the difficulty in finding comparable data.

Most empirical studies have followed a similar approach, and thus have to be considered inconclusive. This is because location advantages are not studied at firm-level and therefore the management's evaluation of these advantages is not considered. These studies have indirectly

assumed that all banks react the same way to advantages identified at different locations. This, however, cannot be true, given the variety of location strategies pursued by different MNBs. Discussion in section 3.2.1 has indicated that new international banking opportunities should give more choices to banks to develop their bank-specific location strategies.

After the discussion of each advantage, the whole framework will be evaluated.

Unlike most of the hypotheses which employ analysis at macro or meso-level, the application of Dunning's framework to banking emphasizes the firm as well. This is because besides patterns of FDI, it attempts to explain the actions of the individual bank. This can be demonstrated by the emphasis placed on the internalization of the bank's ownership advantages. The analysis of internalization goes a step further to recognise, for example, the link between the benefits of having differential access to customer information and the ability to efficiently share such intelligence within the international network of the bank. This approach, which focuses on the motivations of the individual bank, can provide explanations for the internationalization decisions of a particular bank. For example, Citibank's internationalization strategies have been studied within this framework (Cleveland and Huertas 1985).

Most importantly however, the application of the

eclectic paradigm sees the firm as a network of international operations and recognises the importance of coordinating and configurating that network in the most efficient way. This approach has the capability to address global motivations of the MNB. It therefore supports Dunning's (1993) argument that the framework is capable of capturing the competencies and international strategic motives of the MNE as developed by the field of business strategy.

The application of the framework however, is susceptible to the weaknesses of Dunning's paradigm discussed in Chapter 2. The three main deficiencies from the perspective of this study are primarily the failure to recognise the existence of international competition and its effects on the bank's evaluation of its ownership advantages. This in turn affects the bank's motivation in internalizing or choosing foreign markets.

In addition, while the framework quite successfully identifies and discusses the ownership advantages which act as a motive for internationalization, it does not recognize other motives such as the bank's attempts to protect its ownership advantages or access new ownership advantages.

Furthermore, while the framework highlights the motives for multinationality, it neglects the risks which are associated with foreign investment (for a comprehensive list of these risks see Root 1987, p. 129) and which directly affect the level of commitment in a foreign market (Aharoni 1966; Davidson 1982).

Finally, empirical studies focus almost exclusively on the examination of location-specific factors (Night et al. 1986; Sabi 1988; Campayne 1990). This is due to the difficulty of measuring ownership and internalization factors through proxy variables. However, studying one or two advantages only may not be adequate because, as Dunning (1993) argues "it is the configuration of all three advantages that determine the growth of the multinational".

In summary, the application of Dunning's eclectic theory in banking identifies a comprehensive list of factors inhibiting internationalization. These factors are often viewed as MNB motives for internationalization and are applied at firm level. This application of Dunning's theory also stresses the issue of control in a foreign operation as it recognises the intangibility of a bank's assets and the importance of coordinating its network of operations. The application, however takes an offensive approach, thereby neglecting the risks involved in foreign markets.

In the next section the application of the process model in banking will be discussed. Given its emphasis on risks, it should be considered as a complement to Dunning's eclectic theory.

3.2.2.3. The application of the process model in banking

Balancing opportunities with investment risks is

critical for determining the optimal way of servicing foreign markets (Anderson and Gatignon 1986; Kim and Hwang 1992). Recognising that risks have not been studied adequately in the literature on the internationalization of banking, a few studies have examined the determinants of the form of a bank's commitment in a foreign market by applying the concept of the process model discussed in Chapter 2 (Tschoegl 1981; Ball and Tschoegl 1982; Ursacki 1992, Petrou 1995). These authors have argued that banks enter foreign markets with representative offices which require low resource commitment. As they gain more experience they increase their commitment by upgrading their operations to branches or subsidiaries. First, Tschoegl (1981), examining shifts in the organizational forms of foreign banks in California and Japan, has verified the validity of the process model. The rest of the studies have confirmed the association of market commitment to market experience by empirically examining the selection of branches, subsidiaries and representative offices.

The application of the process model is a major contribution to understanding the internationalization of banking because it focuses on the banks' behaviour towards risk. In contrast, the rest of the literature highlights the motives for multinationality.

However, this model is oversimplified, given that market commitment can be associated with a number of environmental factors not considered by the studies. These are the competitive environment, demand uncertainty and

country risk. Additionally, this model is concerned with the risks associated with the foreign entry, while disregarding the bank's strategies and motives for internationalization. For example, opportunities in a certain location could motivate the bank to invest more resources and thus speed up the process of entry.

In summary, the application of the process model can complement the offensive approach taken by the application of Dunning's eclectic theory. Factors inducing uncertainty could be incorporated in the framework to explain the behaviour of the bank towards commitment of resources.

While research on the internationalization of banking focuses on explaining why FDI is taking place, not much attention has been placed on the entry into foreign markets. In the next section, the limited research on entry mode selection will be discussed and the importance of extending the literature to address this managerial issue will be demonstrated.

3.2.2.4. Foreign entry mode selection in banking

The studies which have applied the process model in banking are related to entry mode selection research due to their focus on market commitment. However, these studies do not address the selection of joint ventures and acquisitions (which as has been discussed previously), are becoming very popular modes for serving foreign markets.

Nonetheless, the literature on bank internationalization has recognised the relationship between bank international strategies and FDI entry mode selection (Gardener and Molyneux 1990; Campayne 1990; Buckley et al. 1992).

However, only two studies have attempted to examine the FDI entry mode selection in banking (Buckley et al. 1992 and Hoschka 1993). Both studies are of a qualitative nature and focus on cross-border entries in Europe. These studies have not attempted to build on the existing entry mode selection literature and as such, they have failed to develop an entry mode selection model where the effects of all relevant factors are considered. Their aim is to demonstrate the importance of the entry mode selection strategy in facilitating the international strategies of the MNB. Through interviews with bank managers, both studies have identified the advantages and disadvantages of each FDI entry mode given the strategies of the bank in the European context.

For example, Buckley et al. (1992), studying the European strategies of 24 U.K. financial service organizations, have found that financial services firms perceived opportunities in many markets due to the markets' size and growth, and that they were responding by utilizing their core strengths, tailoring products to local needs and exploiting their potential for economies of scope to penetrate these markets. Managers were aware of the importance of becoming European players, but they were concerned about the difficulty in entering markets quickly

and their ability to maintain control at head-office. The most advantageous mode of entry was perceived to be the joint venture, because it could facilitate quick entry into the markets at low cost and could produce economies of scale and scope. Managers were concerned, however, about the dilution of control which could result in service quality problems.

Both studies have demonstrated that entry mode selection is very important in facilitating bank strategies. However, their results are not conclusive because they do not attempt to differentiate between the selection of entry modes under different conditions. Furthermore, their focus on strategies limits their scope given that environmental factors and firm characteristics are found to contribute to the entry mode selection (Kim and Hwang 1992; Agarwal and Ramaswami 1992). As regards methodology, the small sample and the focus on European retail banking limits the general applicability of the studies. Most importantly however, both studies are not theory-driven, but are surveys which give insights into the influence of strategic factors on entry mode selection.

The following discussion is a summary review of the literature on bank internationalization.

Entry mode selection has not been addressed in the literature on the internationalization of banking despite evidence suggesting its importance in facilitating the strategic priorities of the MNBs. This can be attributed to

the focus of the literature on explaining the choice of location and the creation of the MNB in light of the internationalisation moves observed in the 1960s and 1970s.

The application of Dunning's eclectic theory to banking is compatible with entry mode selection themes such as the transaction costs and coordination/configuration (these themes will be discussed in the context of entry mode selection in the next section). As a result, the factors identified regarding the motivations and behaviour of the banks in an internationally competitive environment can be employed in an entry mode selection framework.

In the next section the literature on foreign entry mode selection will be discussed. The aim is to develop an entry mode selection model in banking by merging both research areas: internationalization of banking and entry mode selection.

3.3. ENTRY MODE SELECTION - INTEGRATING PREVIOUS RESEARCH

Foreign entry mode selection is part of the internationalization process of the multinational. In fact, entry into the foreign market is the first step of this process (Root 1987).

At this stage, the firm must redeploy its resources in the foreign market. These resources must be mobilised efficiently because the success of the foreign venture depends on this (Hall 1992). Entry mode selection is thus

the driving force of the market servicing strategies of the entrant (Buckley et al. 1992), and consequently, besides the internationalization aspect, there is a strategic dimension in the choice of entry modes. In order to address the firm's strategic motives in the context of entry modes, discussion in this section will employ themes from the field of business strategy. These themes address issues related to the resources required to deal effectively with international competition in foreign markets (Stopford and Wells 1972; Porter and Fuller 1986; Harrigan 1988), and the coordination and configuration of the operations to assure network synergies (Porter 1986; Ghoshal 1987).

The aim of this discussion is to demonstrate that the entry mode selection is an issue about control and complementary resources. To achieve this, different streams of research will be discussed isolating the themes which are either control-related or resource-related.

3.3.1. *Entry mode selection - a control and resource perspective*

Given that the entry mode is the means by which firms mobilise resources in foreign markets, two issues are considered when the entry mode selection is investigated. The first issue is what degree of control should be demanded to ensure efficient use of the redeployed resources. Managers' concerns focus on the transfer of resources from the parent firm to the new venture (Anderson

and Gatignon 1986; Hill et al. 1990; Kogut and Zander 1993), the protection of these resources (Davidson and McFetridge 1985; Teece 1986; Agarwal and Ramaswami 1992), the risks associated with failure of the new venture (Anderson and Gatignon 1986; Hill et al. 1990; Erramilli and Rao 1993), and the coordination of the venture's activities so as to ensure that it contributes to the parent's corporate objectives (Porter 1986; Kim and Hwang 1992). The second issue is does the firm have the required resources and/or the time required to mobilise these resources in order to effectively compete in the foreign market with the incumbent firms (Stopford and Wells 1972; Caves and Mehra 1986; Hennart and Park 1993).

To address these issues, managers look at the characteristics of each entry mode and assess which mode can best achieve the firm's objectives (Gomes-Casseres 1989; Nitsch et al. 1996). For example, if the entrant demands control of its new venture, then a joint venture would probably not be considered because it does not provide full control. However, if control is considered too expensive, then a joint venture may be viewed as an attractive entry route.

Table 3.3 shows the main entry mode characteristics which have been considered by the major studies. These characteristics are the entry modes' capability of providing some level of control which derives from the ownership involved, the ease/difficulty of managing the new organization and their resource requirements, and their

Table 3.3. The main entry mode characteristics identified by studies

Study	Entry mode characteristics
Stopford and Wells (1972)	Level of control it can provide (different levels of ownership) Provides (or not) complementary resources Different levels of resources are required
Wilson (1980)	Provides (or not) complementary resources
Caves and Mehra (1986)	Provides (or not) complementary resources
Anderson and Gatignon (1986)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required
Kogut and Singh (1988)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required Provides (or not) complementary resources
Gomes-Casseres (1989)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required Provides (or not) complementary resources
Hill et al. (1990)	Level of control it can provide (different levels of ownership) Different levels of resources are required

Study	Entry mode characteristics
Hennart (1991)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required Provides (or not) complementary resources
Agarwal and Ramaswami (1992)	Level of control it can provide (different levels of ownership) Different levels of resources are required
Erramilli and Rao (1993)	Level of control it can provide (different levels of ownership) Different levels of resources are required
Hennart and Park (1993)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required Provides (or not) complementary resources
Woodcock et al. (1994)	Level of control it can provide (different levels of ownership) Level of control it can provide (ease/difficulty to manage the organization) Different levels of resources are required Provides (or not) complementary resources

capability of facilitating (or otherwise) access to complementary resources.

The above characteristics have been emphasised by research because they can facilitate/hinder the MNE's motives for control and resources. For example, Caves and Mehra (1986) have argued that firms pursuing a diversification strategy need resources, namely, product knowledge. This knowledge cannot be developed in-house over a short period of time, and therefore must be accessed instantly through an acquisition. Caves and Mehra have identified a managers' motive which is directly related to an entry mode characteristic, and have attributed the selection of acquisition to that characteristic.

The following discussion will examine the entry mode characteristics and the factors which contribute to the development of managers' motives for control and resources. Entry mode studies have concentrated either on control or resources. Discussion therefore, will first focus on the control-driven stream of research and then on the resource-driven stream of research. Finally, discussion will consider a few studies which have examined both issues of control and resources.

3.3.1.1 Entry modes and control

Control is a very important concept in management and has been addressed in many studies (Etzioni 1961; Tannebaum

1968; Child 1972; Edstrom and Galbraith 1977; Ouchi 1978; Vancil 1979). Ouchi (1977) has defined control as "the process by which one entity influences the behaviour and output of another entity". A similar definition was also given by Sohn (1994). They have defined control as "any process in which a firm determines or intentionally affects what others will do". Geringer and Hebert (1989), concerned with the issue of control within an organization, have extended Ouchi's definition to indicate the mechanisms of influence within an organization which are "power, authority, and a wide range of bureaucratic, cultural and informal mechanisms". Furthermore, Anderson and Gatignon (1986), trying to make more explicit the areas of influence within the organization, have defined control as "the ability of the firm to influence systems, methods and decisions". Finally, Arrow (1974) has linked control to organizational objectives by defining control as "the process by which an organization influences its subunits and members to behave in ways that lead to the attainment of the organizational objectives".

Overall, control plays an important role in the ability of the firm to regulate organizational activities in order to ensure that they conform with established expectations. Focusing the discussion on the foreign activities of a firm, one could argue that the level of control exercised by the parent is critical for the attainment of its objectives. Thus, control is defined in this study as "the authority over the entry entity that

enables the parent firm to best meet its overall goals and objectives". As such, control is regarded as a way for the parent firm to obtain efficient returns (Anderson and Gatignon, 1986) by resolving disputes (West 1959; Davidson 1982), carrying strategies (Anderson and Gatignon 1986; Kim and Hwang 1992) and protecting the firm's intangible resources in the foreign market (Anderson and Gatignon 1986; Teece 1986; Casson 1987; Kim and Hwang 1992).

Control has been associated with different entry modes. A number of studies have linked the ability of entry modes to satisfy control with the level of ownership involved (Anderson and Gatignon 1986; Root 1987; Hill et al. 1990). In a joint venture ownership is shared among two or more partners. This arrangement has control costs on the firm, because strategic decisions and management of the everyday operations is shared with local partner(s). As a result, the firm may not have the flexibility to manage the joint venture in the most efficient way for its goals (Killing 1983; Beamish and Banks 1987). For example, Hill et al. (1990) have argued that dilution of ownership in a joint venture can impair the strategic flexibility of the entrant. Empirical research has confirmed this association. Kim and Hwang (1992) have discovered that wholly-owned investments could facilitate strategic motivations more efficiently than joint ventures. The above discussion suggests that joint ventures are distinct from wholly-owned investments in terms of control due to ownership

differences.

Ownership, and consequently control, has been associated with the level of resources required by the new venture. These resources are tangible, such as buildings and systems or intangible such as management and know-how. The degree of resource commitment constitutes an exit barrier and limits the strategic flexibility of the firm (Harrigan 1985). When the resources committed are large the firm cannot exit from a foreign market without incurring substantial sunk costs. Accordingly, when risks are high the firm might limit its exposure by reducing the resources committed (Hill et al. 1990).

The foreign entrant commits less resources in a joint venture because the total resource contribution is split among the partners. Joint ventures are therefore regarded as vehicles for reducing risks in foreign markets (Anderson and Gatignon 1986), but the trade off with this arrangement is that the foreign firm must share ownership with partners.

Alternatively, a foreign firm which enters through a wholly owned investment will enjoy full ownership of the venture but will have to commit all the resources required, either by replicating them or purchasing them. In this case, the firm will lose more if it must exit the market.

The above discussion demonstrates the inverse relationship between resource commitment and ownership. In fact, several studies have supported the view that risks

can be reduced by committing less resources through shared ownership (Kobrin 1983; Vernon 1983). Davidson (1982), for example, has found that firms having lower market knowledge tended to reduce risks by committing less resources through a joint venture or licensing.

Reducing the commitment of resources through shared ownership should imply that the foreign firm would enjoy less control of the venture (Erramilli and Rao 1993). This relationship has been clearly demonstrated by Hill and Hwang (1992). Mapping entry modes to control and resource commitment, they have argued that wholly owned investments offer high control and require high resources. Joint ventures were assumed to offer medium control and require medium resource commitment and licensing to offer low control and require low resources.

The linear relationship between control and resource commitment, assumed by this study, is frequently supported by the literature (Davidson 1982, Goodnow and Hansz 1972; Anderson and Gatignon 1986). Empirical studies have demonstrated this relationship (Gatignon and Anderson 1988; Kim and Hwang 1992; Erramilli and Rao 1993). For example, Erramilli and Rao (1993) have found that the lower the firm's market experience, the more likely it is to choose a joint venture. They have explained this outcome as follows: the firm perceives high risk in the market due to its "foreignness" and therefore, avoids committing resources by assuming lower control.

In addition, control has been associated with the organization of the foreign venture. Joint ventures also involve other control costs. Incompatible goals among partners and ineffective communication can create conflicts. In turn, these erode trust and increase the potential for opportunistic behaviour. This may lead to the dissemination of unprotected innovations or know-how of the foreign entrant (Anderson and Gatignon 1986; Kim and Hwang 1992; Woodcock et al. 1994). Such disclosures can have serious effects on the competitive position of the parent firm, possibly creating new competitors (Rugman 1985). In order to avoid such risks, the foreign entrant may seek control of the venture by choosing a wholly owned investment. Anderson and Gatignon (1986) have argued that if the foreign firm perceives that its products are susceptible to partner opportunistic behaviour, or communication with partners is difficult due to the distance between cultures, the firm will avoid sharing control. Empirical studies have confirmed this relationship. For example, Agarwal and Ramaswami (1992) have found that joint ventures were positively associated with contractual risks due to lack of control.

Acquisitions encounter organizational control costs as well. This often results from cultural differences in the two organizations which negatively affect the integration of the acquired organization within the parent MNE (Jemison and Sitkin 1986; Haspeslagh and Jemison 1991; Datta 1991; Pablo 1994). In such cases, the acquirer finds difficulty

in controlling the strategic direction of the acquired firm and thus the process of realising the benefits of the acquisition (Shane 1994; David and Singh 1993; Hennart and Reddy 1997).

Cultural differences can reduce the effectiveness of behavioral-based control mechanisms which rely upon trust, value congruence and respect (Schaan and Beamish 1987; Woodcock et al. 1994). Sales and Mervis (1984) have documented in detail the administrative conflicts resulting from cultural differences. Further, imposition of the acquirer's culture can place acculturative stress on members of the acquired firm. This can affect communication and result in misunderstandings. For example, perception of different goals by the management of the acquired firm and the acquirer can motivate managers in the acquired firm to act opportunistically. Given their market, commercial know-how and everyday involvement in the operations, unwillingness to co-operate in the most effective way can reduce the control of the MNE on the acquired firm and further, can turn integration into a difficult task. (Cartwright and Cooper 1992). Indeed, post-acquisition studies have shown significant control costs due to cultural differences (Buono et al. 1985; Datta 1991; Woodcock et al. 1994; Nitsch et al. 1996). Buono et al. (1985) have observed that significant differences in culture often resulted in feelings of discomfort and hostility. Furthermore, they have argued that organizational members are so embedded in their culture

that the process of integration can disrupt the entire workings of the new venture.

Some studies (Anderson and Gatignon 1986; Hill et al. 1990) have attempted to construct some a form of relationship between control and entry mode. Hill et al. (1990), have assigned wholly owned ventures to relatively high control, joint ventures to medium control and licensing to low control. Anderson and Gatignon (1986), have classified dominant equity interests to high-control modes, daily involvement in the operations and expertise to medium control modes and minority equity positions to low control. Both classifications suggest that of the three entry modes, joint ventures provide the lowest control due to shared ownership. Even though the MNE can exercise more control than its ownership would allow due to factors such as everyday involvement or behaviour-based control mechanisms, such control mechanisms are less efficient than ownership control in wholly owned investments (Killing 1983). Non-ownership control is less effective because partners can act opportunistically, given that there is no ultimate legal control as in ownership control (Woodcock et al. 1994). Acquisitions provide high control due to the full ownership enjoyed, but in certain instances may be perceived as offering lower control than greenfield investments due to the organizational issues discussed above.

The foregoing discussion has demonstrated how entry

modes can facilitate different levels of control. The following discussion will focus on the themes linking firm and environment-related factors to the entrant's control requirements, and the factors found to relate to entry mode selection.

The discussion will first consider the themes related to the defensive nature of control. This is transaction cost analysis and the process model. Then the themes related to its offensive nature will be discussed. These are drawn on business strategy and are related to the coordination and configuration of the MNE's network.

One stream of literature focuses on the risks associated with the transfer and sharing of resources. In order to investigate factors which induce such risks, many studies have adopted transaction cost analysis (Anderson and Gatignon 1986; Hennart 1988; Gomes-casseres 1990; Hill et al. 1990; Madhok 1997). When applied to the entry mode context, transaction cost theory stresses the importance of protecting firm-specific advantages such as know-how and proprietary information. These are sources of competitive advantage for the entrant relative to host country competitors (Dunning 1981; Rugman 1981). When a firm shares its firm-specific advantages, it runs the risk of the partner acquiring these advantages. According to transaction cost logic, by gaining control over the operations a firm can reduce the transfer and dissemination risk (Hennart 1982; Anderson and Gatignon 1986; Hill and

Kim 1988; Madhok 1997).

Empirical research has confirmed the effects of transaction costs on the selection of entry mode (Gatignon and Anderson 1988; Kim and Hwang 1992; Agarwal and Ramaswami 1992; Padmanabhan and Cho 1996). Gatignon and Anderson (1988), studying foreign entries of U.S. MNEs, have found that firms mobilizing proprietary assets and processes to the foreign market would choose wholly-owned investments over joint ventures.

Similarly, Agarwal and Ramaswami (1992), studying the foreign entries of 97 U.S. leasing firms, have found that where managers perceive high contractual risks they would prefer wholly-owned investments over joint ventures. Agarwal and Ramaswami have used a composite measure to capture the risks associated with the dissipation of the firm's proprietary knowledge and the transfer and maintenance of service standards. Kim and Hwang (1992) have measured transfer risks and dissemination risks separately. They have found the former to contribute significantly to the selection of wholly-owned investments over joint ventures. The latter, even though they were positively related to the selection of wholly owned investments, were not significant. Kim and Hwang have not provided any explanation for this, but it could be attributed to the way the factor was measured. It captures managers' perceptions of the existence of proprietary assets, rather than the risks associated with sharing them.

Indeed, the operationalization of transaction costs is

quite problematic. Only Agarwal and Ramaswami (1992) have measured the managers' risk perceptions. The majority of the studies have captured the existence of firm-specific assets. The crudest measure, however was used by Gatignon and Anderson (1988) who approximated firm-specific assets through R&D and advertising spending. These authors have argued that spending in those areas is associated with accumulation of technical and marketing skills. These skills are intangible and firm-specific.

Before identifying the strengths and weaknesses of TCA, another type of risk will be discussed. This risk is associated with the environment in which the foreign venture will operate. The perception of such risks is often associated with the firm's ignorance about local customs and business practices (Davidson 1980;1982; Hedlund and Kverneland 1983; Johanson and Valhne 1990; Erramilli 1991). For example, Erramilli (1991) has argued that firms which lack experience evaluate markets very conservatively. They undervalue opportunities and overestimate the risks associated with doing business in the foreign market.

To address this issue within the scope of entry mode selection, a number of researchers have applied the concept of the process model (Anderson and Gatignon 1986; Kogut and Singh 1988; Hill et al. 1990; Erramilli and Rao 1993). Recognizing that joint ventures require commitment of less resources, they have associated the selection of joint ventures with low market experience. Their argument is that

firms with low market experience perceive higher risks in the market and as a result, they prefer entry modes which do not require the commitment of substantial resources. As a result, firms are willing to accept less control over the foreign operation.

Empirical results about experience are not consistent. While Gatignon and Anderson (1988) and Hennart (1991) have found a positive relationship between experience and preference for high control modes, Kogut and Singh (1988) have found no significant relationship between the two, and Davidson and McFetridge (1985), have found a negative relationship. Erramilli (1991), in trying to explain this controversy, has argued that the different empirical results should be attributed to the sample of firms examined. Studies drawing on data from databases which register foreign entries of large firms, as in the Harvard Database, find mixed results. This is because large firms, who naturally have considerable experience, skip the commitment process (Johanson and Valhne 1990). Additionally, the results could be attributed to conflicting themes. A detailed discussion on this issue will follow in section 3.3.1.2. However, Table 3.4 shows that studies employing the process model have found a consistent positive relationship between experience and the selection of wholly owned investments (Gatignon and Anderson 1988; Gomes-Casseres 1989; Hennart 1991).

As has been discussed previously, the model's dynamic nature driven by the firm's behaviour, made it a useful

Table 3.4. Key factors identified in literature to influence entry mode selection

Variable	Empirical Study	Stream	WO vs JV	ACQ vs GR vs JV	Theme
Firm Related					
Size	Stopford and Wells (1972)	3	- +		EB
	Yip (1982)	2		+ -	EB
	Caves and Mehra (1986)	2		+(a) -(a)	EB
	Kogut and Singh (1988)	3		0 +(b -	TCA
	Agarwal and Ramaswami (1992)	1	+(b) -(b)		TCA
	Erramilli and Rao (1993)	1	+(a) -(a)		TCA
	Padmanabhan and Cho (1996)	3	- +		EB
Experience	Kogut and Singh (1988)	3		0 - -	PM
	Gatignon and Anderson (1988)	1	+(a) -(a)		PM
	Gomes-Casseres (1989)	3	+(b) -(b)		PM, EB
	Zejan (1990)	2		- +	EB
	Hennart (1991)	3	+(b) -(b)		PM, EB
	Erramilli (1991)	1	+(b) -(b)		PM
	Hennart and Park (1993)	3		- +	PM, EB
	Padmanabhan and Cho (1996)	3	+(a) -(a)		PM,
Proprietary assets	Gatignon and Anderson (1988)	1	+(a) -(a)		TCA
	Gomes-Casseres (1989)	3	+ -		TCA, EB
	Hennart (1991)	3	+ -		TCA, EB
	Kim and Hwang (1992)	1	+ -		TCA
	Agarwal and Ramaswami (1992)	1	+(a) -(a)		TCA
	Erramilli and Rao (1993)	1	+(a) -(a)		TCA
	Hennart and Park (1993)	3		-(a) +(a)	TCA, EB
	Padmanabhan and Cho (1996)	3	+(a) -(a)		TCA

Variable	Empirical Study	Stream	WO vs JV	ACQ vs GR vs JV	Theme
Diversification	Yip (1982)	2		+ -	EB
	Gomes-Casseres (1989)	3	- +		EB
	Zejan (1990)	2		- +	EB
	Hennart (1991)	3	-(a) +(a)		EB
	Hennart and Park (1993)	3		+(a) -(a)	EB, TCA
	Padmanabhan and Cho (1996)	3	- +		EB
Coordination	Gomes-Casseres (1989)	3	+(b) -(b)		CC
	Gomes-Casseres (1990)	1	+(a) -(a)		CC
	Hennart (1991)	3	+ -		CC
	Kim and Hwang (1992)	1	+(b) -(b)		CC
Market Related					
Market potential	Caves and Mehra (1986)	2		+(b) -(b)	EB
	Hennart (1991)	3	-(a) +(a)		EB
	Agarwal and Ramaswami (1992)	1	+(b) -(b)		TCA
	Kim and Hwang (1992)	1	+ -		TCA
	Hennart and Park (1993)	3		+(b) -(b)	EB
R&D spending	Caves and Mehra (1986)	2		+ -	EB
	Kogut and Singh (1987)	3	-(a) +(a)		TCA, EB
	Kogut and Singh (1988)	3		0 - +(b)	EB
Advertising spending	Caves and Mehra (1986)	2		+ -	EB
	Kogut and Singh (1987)	3	+ -		TCA, EB
	Kogut and Singh (1988)	3		0 - -	EB

Variable	Empirical Study	Stream	WO vs JV	ACQ vs GR vs JV	Theme
Country Related					
Country risk	Gatignon and Anderson (1988)	1	-(a) +(a)		PM
	Kim and Hwang (1992)	1	-(a) +(a)		PM
	Agarwal and Ramaswami (1992)	1	- (b) +(b)		PM
	Erramilli and Rao [1993)	1	- +		PM
Cultural distance	Gatignon and Anderson (1988)	1	- +		PM
	Kogut and Singh (1988)	3		0 -(a) +(c)	PM
	Gomes-Casseres (1989)	3	-(a) +(a)		PM
	Erramilli (1991)	1	-(b) +(b)		PM
	Kim and Hwang (1992)	1	-(b) +(b)		PM
	Erramilli and Rao (1993)	1	-(a) +(a)		PM

Explanatory notes:

(a): Significant at 0.01, (b): Significant at 0.05 and (c): Significant at 0.1

WO: Wholly-owned investment
JV: Joint venture
ACQ: Acquisition
GR: Greenfield

EB: Entry barriers
TCA: Transaction cost analysis
PM: Process model
CC: Coordination/configuration

Stream 1: Control-driven
Stream 2: Resource-driven
Stream 3: Control and resource-driven

tool for studying the firm's entry mode strategies. However, since commitment and market experience are the only explanatory variables in the model, it is often used in conjunction with other theories to explain the complex phenomenon of entry mode selection. Anderson and Gatignon (1986) have incorporated the concept of the process model with transaction costs. They have developed a transaction cost framework to determine the level of control a firm should have over its foreign ventures. In addition to firm-specific assets, they have identified external and internal uncertainty as sources of transaction costs.

External uncertainty results from the unpredictability of the entrant's external environment, which can take the form of political instability, economic fluctuations and currency changes. Internal uncertainty results from cultural differences between the home and host country and lack of market experience. Uncertainty influences executives to avoid committing substantial resources to the market, resulting in less control over the foreign venture. Following this theoretical development, a considerable number of empirical studies have tried to test the above framework (Gatignon and Anderson 1988; Gomes-Casseres 1990; Kim and Hwang 1992; Erramilli and Rao 1993). Country risk has been consistently found to be positively related to joint ventures (Gatignon and Anderson 1988; Kim and Hwang 1992; Erramilli and Rao 1993). These studies have argued that when managers perceive high country risks (those are associated with political and economic instability and

possibility of restrictions on the foreign venture), they will avoid committing substantial resources, and will consequently settle for with less control.

Following a similar logic, a number of studies have argued that large cultural differences can result in the adoption of less control in the foreign venture. This hypothesis has been confirmed by empirical studies (Gatignon and Anderson 1988; Erramilli 1991; Kim and Hwang 1992; Erramilli and Rao 1993).

The application of the transaction cost framework is a powerful explanation of the entry mode selection, because it comprehensively considers the risks faced by the entrant in a foreign market. The adoption of transaction cost logic in most empirical studies (see Table 3.4) provides evidence for its ability to explain the choice of entry modes.

Despite its wide application, however, the transaction cost explanation has been criticized for its defensive nature. Cost minimization alone cannot describe completely the optimum mode of entry (Contractor 1990; Madhok 1997). This is because it cannot explain the motives for the creation of new markets, new organizations and new technology (Horaguchi and Toyne 1990). Therefore, factors which are related to the firm's revenue enhancement strategies should also be considered.

Another stream of research regards control as a mechanism for facilitating the entrant's strategies. The

theme that drives this stream, configuration and coordination, is drawn on business strategy (Porter 1985; 1986; Ghoshal 1987; Bartlett and Ghoshal 1989).

Porter (1986) who advanced the concept, argued that a primary task of strategy implementation concerns the geographical location of the organization's activities and the linkages of these activities across locations. This is because the geographic specification, or configuration of functional activities, establishes the capacity to exploit location-specific advantages. For example, a firm may locate a range of activities in a country to facilitate marketing in that country by signalling its commitment to local buyers and providing greater responsiveness. Furthermore, the integration of these activities across locations, or coordination, is fundamental to achieve scale, scope and learning economies. For example, coordination allows the sharing of know-how among disperse activities. If a firm learns how to operate the production process in a certain country, transferring that knowledge can improve the same process in a different country. However, the two concepts interact. Coordination of some activities may be necessary to reap the advantages of configuration in others. The use of common raw materials in a number of dispersed plants, for example, requires worldwide coordination of purchasing.

Porter (1986) developed a framework which suggests that the combination of configuration and coordination dimensions are the determining factors of alternative

international strategies. For example, geographically concentrated activities combined with high coordination result in a global strategy, whereas, concentrated activities combined with low coordination results in a country-centred strategy. This framework does not provide for alternate patterns either within or between the two dimensions. Therefore, there are numerous strategy implementation patterns which are not captured by the aggregate configuration and coordination dimensions.

Bartlett and Ghoshal (1989) extending this concept, have argued that the modern multinational has a mixture of centralised and decentralised activities which results in a complex configuration of resources. In their view, complex configuration results in complex patterns of coordinating the flow of components; finished goods, funds and skills.

Empirical research has yet to validate the role of configuration and coordination in implementing an international strategy. A study by Roth et al. (1991) has found that coordination of activities supported the international strategy choice. However, the relationship between strategy and configuration has not been confirmed.

The first to recognise that control could facilitate the firm's strategies in the field of entry mode selection, were Stopford and Wells (1972). In discussing the rationalization of production, they stressed the importance of its location. This could reduce manufacturing costs for

a number of reasons. First, the firm could take advantage of lower labour costs in certain countries. Second, it could achieve economies of scale by concentrating production in large plants. Third, it could specialize plants in different countries to take advantage of local inputs and other factors.

Furthermore, Stopford and Wells argued that such rationalization would require intra-company deliveries of parts, materials and know-how. To achieve that, decisions should be taken at a higher level than at the foreign venture because coordination is vital to ensure efficient configuration and synergies from the network. These authors argue that in this case the parent should have control of the foreign venture.

Similar arguments have been advanced by a number of researchers (Jones and Hill 1988; Hennart 1991; Gencturk and Aulakh 1995). Gencturk and Aulakh (1995) supported the notion that interdependence between organizational units complicates the control task and increases the need for coordination of activities and consistency in decision making. Stopford and Wells (1972) carried out a survey of managers. The results indicated that managers were concerned with the inability of joint ventures to provide control to facilitate transfer pricing, allocate markets and rationalize production. Indeed, Gomes-Casseres (1989) argued that a firm pursuing such strategies could face conflicts with partners because local partners are interested in maximizing profits in one country.

Empirical studies have confirmed the effects of coordination and configuration on control. Hladik (1985), studying foreign ventures of U.S. multinationals, has found that the greater the interdependence among the parent's operations, the more likely was entry through wholly owned operation. Similar results were reported by Gomes-Casseres (1990) who has studied U.S. foreign entries. Both studies have approximated the variable through the percentage of sales to other members of the parent's network. Gencturk and Aulakh (1995), recognising that this operationalization is inadequate, have developed a composite perceptual measure to operationalize interdependence. They asked managers to rate sharing of resources across five marketing functions. However, measuring interdependence reflects the need for coordination but not the need for configuration (Gomes-Casseres 1990). Trying to capture the effects of both factors, Kim and Hwang (1992) have developed two separate perceptual composite measures. One measure evaluates the degree of sharing resources among the parent's network and the other, strategic motivations related to the positioning of the foreign venture. Both variables were found to be positively associated with high control entry modes.

The effects of strategic motivations on entry mode selection have never been addressed in isolation. Recognising that such motivations complement the transaction costs and process model explanation, most

studies have examined strategic motivations in combination with other themes (Gomes-Casseres 1989; 1990; Hill et al. 1990; Kim and Hwang 1992). Hill et al. (1990) have combined business strategy and transaction cost-related variables in a single framework. Their main proposition has been that different types of motivation have different effects on entry mode selection. Strategic variables influence the entry mode selection through the control requirements, environmental variables influence the resource commitment of the firm, and transaction variables influence the perception of dissemination risk. This framework was tested by Kim and Hwang (1992), who found that the three groups of variables independently and jointly influence entry mode selection.

Overall, configuration and coordination have not received as much attention as transaction costs. This is evident from the number of studies which have adopted this theme (see Table 3.4). Furthermore, the effects of configuration on entry mode selection have not been investigated adequately in empirical studies. To address this gap, more studies with an equal balance between risks and strategic motives are required. However, unlike Kim and Hwang's study, the effects of variables driven from different themes should be observed in an interactive framework because these themes are interrelated. Stopford and Wells (1972), for example, have found that rationalizing production in a joint venture could cause conflicts. This is a transaction cost issue interacting

with a strategic motivation. In the following paragraphs the empirical treatment of control, another weakness of this stream of research, will be discussed.

A general weakness of control-focused empirical studies is their failure to measure the firm's desire for control. Even though theoretical predictions focus on the firm's motivation for control (Anderson and Gatignon 1986; Hill et al. 1990; Gomes-Casseres 1990; Hennart 1991; Erramilli and Rao 1993), empirical studies link factors directly to the entry mode selected. This oversimplification omits the motives of the decision-maker, by assuming that the level of control accruing from the actual mode of entry is the same as the firm's desired level of control. However, foreign government restrictions, firm policies, or the unavailability of partners could all lead to significant differences between the two (Stopford and Wells 1972; Robinson 1978; Klein et al. 1990). Erramilli and Rao (1993), recognising this weakness, have argued that "the efficacy of entry mode models could be greatly improved by measuring the firm's desired level of control independently of the actual entry mode employed".

The study of control, in the context of entry mode selection, has emphasised more the risks associated with entry and less the strategic motivations of the firm. This may indicate that control is not adequate to explain the choice of entry modes.

To get a balanced prospective of the literature on

entry mode selection, the next section will discuss the resource requirements of the firm.

3.3.1.2 Entry modes and complementary resources

The resources of the firm have attracted the interest of researchers because they determine the firm's strategies. A recent stream of research known as the "resource-based" view of the firm, has identified resources as the root of competitive advantage (Aeker 1989; Dierickx and Cool 1989; Barney 1991). Aeker (1989) for example, has pinpointed the route to sustainable competitive advantage as being a process of managing firm resources. Based on this view, Barney (1991) has defined resources as "all assets, capabilities, organizational processes, firm attributes, information knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness".

Firms entering foreign markets are faced with a very important question; what type of resources are required to compete effectively in the foreign market. Often the firm does not have, or cannot mobilize all the resources required. It therefore has to seek complementary resources in the foreign market. Complementary resources are defined as "the resources required by the venture to effectively compete with incumbent firms and capture market share which cannot be developed instantly or transferred efficiently to

the foreign market" (Stopford and Wells 1972; Chatterjee 1990). Such resources are market knowledge, skills, a customer base, and distribution (Chatterjee 1990; Buckley et al. 1992; Hamill 1989). By accessing complementary resources a firm can manage to bypass barriers to entry and get established in the foreign market quickly by "putting hands" on market share (Wilson 1980). Incumbent firms possess these resources but the entrant must obtain them at cost either by developing, buying or accessing them.

Greenfield investments cannot provide complementary resources. The entrant must re-deploy or develop all the resources required to establish a competitive position in the foreign market. However, given that certain resources, such as distribution and market knowledge, take time to develop, greenfield investments are considered slow entry modes (Biggadike 1979; Caves 1982; Hennart Park 1993; Hoschka 1993). Hoschka (1993) has argued that this is particularly true when switching costs are high, in which case attracting clients from incumbents is a very difficult task. Furthermore, this is also true when expertise and product know-how need to be accumulated through gradual learning.

A number of empirical studies have confirmed the inability of greenfield investments to provide complementary resources (Stopford and Wells 1972; Wilson 1980; Caves and Mehra 1986; Hennart and Park 1993). For example, Wilson (1980) have found that firms lacking market

know-how would enter a foreign market through acquisition rather than greenfield investment. Similarly, Stopford and Wells (1972), studying the selection of joint ventures, have found that in a similar scenario, firms would choose a joint venture. Both studies argue that the most efficient way of gaining market knowledge is by accessing it rather than developing it.

Alternatively, through acquisition the entrant can purchase the complementary resources required. This suggests that firms that can re-deploy the required resources will use a greenfield investment, whereas firms that cannot will trade financial resources for the required resources through an acquisition. Empirical studies comparing the selection of acquisitions versus greenfield investments, have emphasized the ability of acquisitions to facilitate quick establishment in a foreign market by providing the firm with the resources required (Wilson 1980; Hennart and Park 1993). Research has linked acquisitions to strategies related to product diversification and skill development because these strategies require know-how which the firm cannot develop internally in an efficient way (Yip 1982; Chatterjee 1990; Hennart and Park 1993). For example, Hennart and Park (1993) have found that Japanese firms pursuing product diversification in the U.S would select acquisition over greenfield investment.

Joint ventures with local partners have also been regarded as entries that provide the firm with

complementary resources. Joint ventures can satisfy requirements for local knowledge, skills, distribution needs, local image (Stopford and Wells 1972; Contractor 1990; Buckley et al. 1992) and facilitate quick entry (Buckley 1985; Hamill 1989; Buckley et al. 1992). For example, Buckley (1985), studying entries in Japan, has found that the most favourable route was the joint venture. Managers preferred this entry mode because it satisfied their requirements for local knowledge and expertise, and provided them with a Japanese identity. Greenfield investment was considered too slow. Similar results have also been reported by Hedlund and Kverneland (1984) who studied the strategies of Swedish firms in Japan. Buckley et al. (1992), studying the European strategies of U.K financial services, have found that joint ventures were the most preferred mode of entry due to the access to distribution channels and customer base. These resources were the most important strategic considerations for the entrant.

The above discussion shows that firms entering foreign markets through greenfield investments must internally transfer and develop the required resources. Greenfield investments thus differ substantially from acquisitions and joint ventures which can provide the entrant with complementary resources.

Research on entry modes has not differentiate between joint ventures and acquisitions; the studies that considered the issue treat the two entry modes as

substitutes for each other (Kogut and Singh 1988; Gomes-Casseres 1989; Hennart and Park 1993; Woodcock et al. 1994). This can also be demonstrated by the factors which have been used to differentiate between entry modes. Product differentiation, lack of market, marketing or technology know-how are factors used to support the selection of acquisitions or joint ventures. The arguments are always the same: the firm requires complementary skills which must be accessed through acquisition (Wilson 1980; Caves and Mehra 1986; Hennart and Park 1993) or a joint venture (Stopford and Wells 1972; Gomes-Casseres 1989).

The foregoing discussion has emphasised the ability of different FDI entry modes to satisfy the resource requirements of the firm. In order to explain the choice of entry modes, the following discussion will focus on the themes which link firm and environmental factors to resource requirements. The main theme adopted, barriers to entry, has been advanced in the field of business strategy. Discussion will first introduce the above theme, and then examine its application in entry mode selection studies.

The concept of entry barriers is concerned with the costs incurred by firms entering new markets. It recognises that entrants are in a disadvantageous position relative to established incumbents. Overall, the theory predicts that the existence of barriers to entry result in fewer entries, and therefore allows incumbents to enjoy above average

profitability. Bain (1956), the originator of the theme, claimed that each market can be characterised by a "condition of entry" equivalent to the state of potential competition from possible new competitors. These conditions of entry are the advantages the established sellers in an industry have over potential entrants. He has attributed this barrier to three types of sources: absolute cost advantages - entrants must obtain factors of production at higher cost compared to existing competitors; product differentiation advantages - entrants must invest in catch-up differentiation activities or else face less favourable demand conditions; and economies of scale - entrants must achieve sufficient capacity to be competitive.

Bain's (1956) approach is clearly economic. It considers how various elements of industry structure can impose disadvantages on entrants relative to incumbents. As a result, it considers only industry-wide variables as determinants of entry behaviour. Furthermore, Bain's formulation identifies only newborn firms as the potential entrants. He has not considered the resources of the entrant which could reduce entry barriers when transferred to the new market (Porter 1980; Yip 1982; Karakaya 1993).

The research that followed, recognising Bain's (1956) weaknesses, has attempted to introduce a strategy element in the theory. Porter (1980) in a pioneering study, acknowledged that incumbents pursue different strategies and should be grouped accordingly. As such, a firm entering a market can face different entry barriers depending on the

group of incumbents which it challenges. Building on this approach, Yip (1982) has suggested that different entry strategies imply different barriers to entry. For example, entrants can exploit technological change which often offers an easy entry in the market. This is because some of the incumbents may be unwilling or unable to adapt to new technology.

Overall, research argues that barriers to entry can be reduced by the firm's entry strategy. Furthermore, it recognises that entrants face different levels of barriers depending on the mismatch between their resources which can transfer to the new market and the resources required by the strategy pursued. However, Chatterjee (1990) noted that in most cases the entrant will need complementary resources before the entry is feasible. For example, a firm may have manufacturing capabilities but lack brand recognition, or may lack distribution. This is particularly true when the firm enters a foreign market. Most likely the firm will lack distribution channels and market knowledge (Karakaya 1993). Chatterjee (1990) calls the mismatch of resources the utilization cost. He argues that utilization cost equals the entry barriers only when the firm cannot transfer any of its resources to the new market. This is likely to arise when the entrant has no existing related business.

Indeed, firms entering related markets are expected to possess most of the resources required and therefore perceive very low entry barriers. Empirical research has

confirmed the above relationship (Yip 1982; Anderson and Lamond 1985; Simmonds 1990). Simmonds (1990) for example, found that pursuing related diversifications achieved larger market share compared to unrelated diversification entries. The study controlled for the entry mode adopted.

Research on entry mode selection focuses on the resource requirements of the entrant. The type of resources required will depend on the firm's strategy, the type of resources possessed and the structure of the market that it is entering (Stopford and Wells 1972; Yip 1982; Caves and Mehra 1986; Hennart and Park 1993). Empirical studies on entry modes have investigated factors related to the above areas. The following discussion will elaborate on the important factors studied.

Firms pursuing a product diversification strategy require more resources because they lack product skills and brand names (Wilson 1980; Caves 1982; Yip 1982; Root 1987; Hennart and Park 1993; Padmanabhan and Cho 1996). Yip (1982) for example, argued that firms entering non-related business do not have firm-specific assets which they can transfer to the market, and therefore, need substantial extra resources which have to acquire at cost.

Empirical studies have found contradictory results (Yip 1982; Zejan 1990; Hennart and Park 1993). While Hennart and Park (1993) found significant and supportive results, Yip (1982) reported insignificant results, and Zejan (1990) has found a negative relationship between

product diversification and acquisition. The inconclusive empirical results should be attributed to competing themes. Firms pursuing a diversification strategy will have greater difficulty in integrating an acquired firm. This is because the two firms have different business practices which can result to more distant organizational cultures. Hennart and Park (1993) have argued that in such situation the firm should avoid an acquisition.

Similarly, firms aiming for technical synergies by upgrading or complementing their technology or marketing skills should choose an acquisition. Hennart and Park (1993) argued that acquisitions can provide the entrant with local brand names which can combine with their firm-specific marketing skills. Yip (1982) demonstrated this strategy by referring to Philip Morris' entry into the beer industry through the purchase of Miller Brewing. The acquirer, combining its marketing skills with the beer brand, managed to penetrate the market very profitably. Empirical studies which measure the firm's motivation to access skills through R&D and advertising spending at industry level (Caves and Mehra 1986; Kogut and Singh 1988), found a consistent preference towards acquisition. However, none of the studies found significant results. This could be attributed to the aggregate measures used. These measures capture the market structure, but not the firm strategies. Recognising this, Kogut and Singh (1988) have argued that firms investing abroad could pursue a

number of strategies. According to these authors, "it is equally likely that foreign firms are investing in the U.S. for technology and brand label acquisition as for the exploitation of their proprietary assets".

Hennart and Park (1993), applying the above measures at firm level, found that high advertising expenditure was positively related to acquisitions, thus supporting Kogut and Singh's (1988) argument. However, they also have found that R&D spending was negatively related to acquisition. They have attributed this result to the firm's concern with the organizational difficulties which acquisitions impose when technology skills are transferred.

Overall, the influence of resource-related strategies on entry mode selection is not clear. This could be attributed to the operationalization of the factors, or to other competing themes not captured by this stream of research.

Attractive markets have been investigated by entry studies. These studies have argued that the foreign firm may perceive high opportunity costs if entry is delayed in a high-growth market (Biggadike 1979; Caves 1982; Caves and Mehra 1986). For example, Hennart and Park (1993) have claimed that building a subsidiary from scratch will take time as the entrant will have to match the incumbents' resources. Therefore, entering a growing market through acquisition will make most sense.

Empirical research has found that market potential is

significantly related to the selection of acquisition (Caves and Mehra 1986; Hennart and Park 1993). To explain these results, Caves and Mehra (1986) concluded that even though market rivalry may not be intense, foreign entrants still have to bypass quickly barriers such as distribution and switching costs. However, it is interesting to observe from Table 3.4 that transaction cost studies have found a positive relationship between market growth and the selection of wholly owned investments. A detailed discussion of this issue will follow in section 3.3.1.3.

Another set of variables examined are the entrant's characteristics; and particularly its experience and size. Caves and Mehra (1986) argued that firms with little experience require market skills which they cannot develop efficiently and which therefore, must be purchased. Similarly, Yip (1982) argued that large firms have the resources required to enter foreign markets and that therefore they should prefer a greenfield investment. Both arguments are resource-related. However, studies that have considered other themes in their models, have advanced additional but competing arguments. Hennart and Park (1993) argued that less experienced firms may fear post-acquisition management problems which can make integration a difficult task. With a similar reasoning Kogut and Singh (1988) argued that larger firms have greater ability to acquire. Empirical studies have found that experience does not have significant effect on entry mode selection

(Wilson 1980; Kogut and Singh 1988; Zejan 1990; Hennart and Park 1993). This can be attributed to the competing theories discussed above.

The parent's size however, is found to have significant though not consistent effects. While Yip (1982) and Kogut and Singh (1988) found larger parents tended to select greenfield investments, Caves and Mehra (1986) found the opposite. Kogut and Singh (1988) attributed the mixed findings to the sample of firms studied. According to these authors some studies drew upon data from the largest corporations. They do not explain, however, how the sample size affects the results.

However, given the views expressed above, it is reasonable to argue that firms in the selected samples could have different priorities, particularly resource-related. This could bias the results one way or the other.

The above results may indicate once again that the concept of complementary resources is not adequate to explain the selection of entry modes. The following discussion will evaluate the stream of research just discussed.

Most studies are quite comprehensive in terms of the factor categories which they examine (Wilson 1980; Caves and Mehra 1986; Kogut and Singh 1988; Chatterjee 1990; Hennart and Park 1993). These authors have studied the firm's resource intensive strategies, the entrant's stock of resources, and market factors which can impose resource

constraints on the firm. This approach is in line with the theoretical developments of Bain (1956), Porter (1980) and Yip (1982).

However, the empirical approach of this stream of literature is prone to a number of weaknesses. Firstly, studies have investigated factors related to entry barriers without controlling for the magnitude of the barriers. For example, distribution may raise a great barrier in the soft drink industry but have insignificant effect in the semi-conductor industry. Accordingly, the degree of resource deficiency is difficult assess unless one knows which industry the firm is entering. The failure of all studies to control for the industry could have resulted in the contradictory results discussed above. For example, the inconclusive effect of product diversification could be easily attributed to this problem. Diversification in a high-tech consumer industry, for example, would possibly require many more resources than diversification in a fast-moving goods industry (Yip 1982).

A second weakness is the inadequate operationalization of certain factors, particularly the strategies of the firm. Measuring the firm's diversification strategy by examining differences in the product classification codes does not reveal much about the firm's motives and its resource requirements. Furthermore, determining the entrant's skill requirements from the aggregate industry spending in R&D and advertising cannot capture the firm's motives. Most importantly, it cannot differentiate between

firm-level strategies.

Another weakness is associated with the empirical treatment of complementary resources. Like control, the firm's need for resources is assumed from the choice of entry mode. For example, Hennart and Park (1993) argued that firms entering an attractive target market would require complementary resources quickly. Their hypothesis however, was that "the more attractive is the target market the more likely the firm would choose an acquisition over a greenfield investment". Clearly, the researchers are assuming that acquisitions can provide complementary resources fast. However, if the entry mode selection depends on the evaluation of a number of often conflicting firm motives (Stopford and Wells 1972; Root 1987; Contractor 1990), then treating the motives separately from the entry mode is essential for understanding the entry mode selection.

The final weakness of this stream of research is conceptual rather than empirical. It is related to the concentration of studies on complementary resources. Discussion of the empirical findings associated with product diversification and experience should demonstrate that control-related explanations should also be considered. Therefore, focusing only on resources cannot explain adequately the entry mode selection. Further, studying only greenfield investments and acquisitions may not be adequate because the firm's motives may not be satisfied by any of these entry modes. Thus a firm with low

experience, for example, will need market knowledge. However, it may not demand high control due to the perceived risks associated with the integration of an acquisition and the uncertainty of the unknown environment. In this case, a joint venture should be preferable because it satisfies the firm's resource requirements at minimum risk. The resource-driven studies, investigating the selection between acquisitions and greenfield investments, predicted that acquisitions are more appropriate (Wilson 1980; Zejan 1990). Hennart and Park (1993), who looked at both resources and control, could not make a prediction because neither one of the two entry modes could satisfy the firm's motives. Considering all FDI entry modes, therefore, may be more appropriate.

To summarize, the resource-driven studies are characterised by inconclusive results. This can be attributed to the restricted set of entry mode choices examined, namely greenfield investments and acquisitions. Sometimes, competing themes suggest that joint ventures are a more appropriate vehicle for entering a foreign market. Therefore, considering the selection of all three FDI entry modes driven by both complementary resources and control will provide a more complete explanation of entry mode selection.

In the next section, entry mode selection will be discussed in the framework of both control and resources.

3.3.1.3. Control and complementary resources: the determinants of entry mode selection

In sections 3.3.1.1 and 3.3.1.2, the streams of research driven either by control or by complementary resources were reviewed. The above discussion has argued that the foreign entry mode selection must be regarded as an issue of control and access to complementary resources in the target market (Stopford and Wells 1972; Gomes-Casseres 1989; Hennart and Park 1993; Woodcock et al. 1994). Consider, for example, a firm which chooses a joint venture to access complementary resources. By doing this, the firm exposes its core resources to partners, and risks providing its partners with competitive advantage (Anderson and Gatignon 1986; Hennart and Park 1993). A joint venture is chosen, however, because the firm does not feel that it must control the exposed resources, either because they are non-core or because it is difficult to imitate them. However, when this is not the case, the firm may desire to control these resources and will therefore, avoid joint venture. Furthermore, if access to complementary resources is critical, then the firm may settle for acquisition. However, if control is more important to the firm, particularly where it anticipates organizational problems, then it should choose a greenfield investment (Caves and Mehra 1986; Hennart and Park 1993).

The above example demonstrates that the entrant must evaluate its control and resource requirements. Then, based

on its priorities, the entrant selects the mode of entry. It must be emphasised here that both issues may not be equally important to the firm. This will depend on the evaluation of firm, market and country-related factors.

Stopford and Wells (1972), in a pioneering study in the field, have declared the selection between joint ventures and wholly-owned investments to be a trade-off between the control required and the resources needed to successfully enter the foreign market. According to Stopford and Wells, the strategies of the firm determine whether the entrant will choose full control or will release control to partners in order to access complementary resources. Furthermore, they have argued that firms pursuing differentiation, innovation, and/or production rationalization strategies choose wholly-owned operations because control is critical in carrying their strategies effectively. Firms pursuing diversification or capital-intensive vertical structure strategies prefer joint ventures, due to resource requirements.

Recently, research has merged themes related to control and resources, to develop a more complete explanation of the entry mode selection (Gomes-Casseres 1989; Hennart 1991; Hennart and Park 1993; Woodcock et al. 1994). The following discussion will concentrate on this stream of research. The themes adopted by these studies and the factors investigated have been discussed previously. To avoid duplication, the review of this stream of research

will highlight the way the themes were combined to support the hypotheses. The objective is to demonstrate: first, that both concepts are necessary to explain entry mode selection and second, that all FDI entry options should be considered independently.

All of the studies of this stream except one, investigate the selection of joint ventures versus wholly owned investments (Stopford and Wells 1972; Kogut and Singh 1987; Gomes-Casseres 1989; Hennart 1991). Resource-related themes which were adopted later by entry mode research, could be applied to joint ventures jointly with the complementary control-related themes. The major proposition of these studies is that **joint ventures provide access to complementary resources. However, to obtain these resources, the firm must incur transaction costs by exposing its own resources to partners. The choice between the two alternatives depends on the comparative cost of not having full control, and the benefits arising from a joint venture.**

Table 3.5, which displays details of the major studies, indicates that this stream employs most themes which have been advanced in the literature: transaction costs, barriers to entry and coordination/configuration. This approach is a more complete explanation compared to the two previous streams of research examined, because both the risks and benefits perceived by the firm are studied. The factors which have been investigated derive from both streams of research. For example, Gomes-Casseres (1989) has

Table 3.5. The main empirical entry mode selection studies

Study	Sample	Analysis	Comparison	Themes
Stopford and wells (1972)	152 US MNE entries	Regression	Joint ventures vs Wholly owned	Entry barriers
Caves and Mehra (1986)	118 entries in the US	Regression	Acquisition vs Greenfield	Entry barriers
Kogut and Singh (1987)	108 manufacturing entries in the US	Logit Analysis	Joint ventures vs Wholly owned	Process model Entry barriers Transaction costs
Kogut and Singh (1988)	228 entries in the US	Multinomial logit	FDI entry modes	Transaction costs Process model Entry barriers
Gatignon and Anderson (1988)	1267 US MNE entries	Multinomial logit	Joint ventures vs Wholly owned	Transaction costs Process model
Gomes-Casseres (1989)	1532 US MNE entries	Logit analysis	Joint ventures vs Wholly owned	Transaction costs Entry barriers Coordination/conf
Zejan (1990)	224 Swedish entries	Logit analysis	Acquisitions vs Greenfield	Entry barriers

Study	Sample	Analysis	Comparison	Themes
Hennart (1991)	158 Japanese entries in the US	Logit analysis	Joint venture vs Wholly owned	Transaction costs Entry barriers Coordination/conf Process model
Kim and Hwang (1992)	96 US MNE entries	Logit analysis MANOVA	Wholly owned vs Joint ventures vs Licensing	Transaction costs Coordination/conf Process model
Agarwal and Ramaswami (1992)	97 US leasing firms	Logit analysis	Wholly owned vs Joint ventures vs Exporting	Transaction costs Process model
Erramilli and Rao (1993)	381 US service MNE entries	Logit analysis	Joint ventures vs Wholly owned	Transaction costs Process model
Hennart and Park (1993)	270 Japanese entries in the US	Logit analysis	Acquisition vs Greenfield	Transaction costs Entry barriers
Padmanabhan and Cho (1996)	839 Japanese entries	Logit analysis	Wholly owned vs Joint venture	Transaction costs Entry barriers Process model

identified access to technology skills, marketing skills, and market knowledge as the benefits flowing from joint ventures. Further, he has associated the transfer of the firm's intangible resources, managerial conflicts, opportunistic behaviour and need to coordinate its network as the costs of this arrangement. Hennart (1991) has identified exactly the same costs, and in addition to the above benefits, the lower resource requirement of joint ventures.

Hennart and Park (1993) have employed the same logic to explain the selection between acquisitions and greenfield investment. They have argued that acquisitions are chosen because they can provide complementary resources. The firm may, however, encounter problems with integration and transfer of its intangible resources under this arrangement.

The different approaches taken by investigating different entry modes, raise a number of questions with respect to the conceptual consistency of the studies, which will be addressed soon.

To evaluate this stream of research, two lines of discussion will follow. First, the main empirical results will be examined,and then the anomaly within the conceptual approach of these studies will be investigated.

The emphasis of this stream of research is on the effects of firm-specific assets and resource-seeking strategies on the entry mode selection. As such, most

studies have tested the effects of R&D and advertising spending, experience and diversification (Stopford and Wells 1972; Gomes-Casseres 1989; Hennart 1991; Padmanabhan and Cho 1996). The first three studies, which investigate joint ventures, found consistent results in line with control-based studies (see Table 3.4). Their arguments are driven by transaction costs and barriers to entry.

The results of the fourth study, by Hennart and Park (1993), were significant and shed light on the inconclusive results of the resource-driven steam of entry research (see Table 3.4). The themes proposed, which complement the resource-driven approach may indicate that the concept of complementary resources alone cannot adequately explain entry mode selection.

Overall, the significant and consistent empirical results suggest that the approach adopted by these studies can explain entry mode selection better than the other two streams of research. However, this stream does not consider comprehensively the factors examined in the literature.

First, it does not consider adequately country-related factors. Country risks have not been studied at all, whereas cultural distance has been investigated by only one study (Gomes-Casseres 1989). As the control-based research has demonstrated, the risks induced by such factors significantly affect the entry mode selection (Gatignon and Anderson 1988; Kim and Hwang 1992; Agarwal and Ramaswami 1992). Omission of these factors, therefore, can distort

the results.

Another factor which has not be considered adequately is market potential. Control-based studies have argued that low growth markets increase uncertainty about the success of the new venture. This can result in the firm's committing less resources in the market and therefore its acceptance of less control on the new venture (Hill et al. 1990). Control-focused empirical studies have found a negative relationship between market growth and the selection of joint ventures (Kim and Hwang 1992; Agarwal and Ramaswami 1992). However, this reasoning competes with the barriers to entry logic (Yip 1982; Caves and Mehra 1986; Hennart and Park 1993). Therefore, to better evaluate the effects of market potential, studies should consider all competing themes.

The second line of discussion will start from the study of Hennart and Park (1993). It is interesting to observe that these authors have adopted the same themes as the other stream-three studies. They have explained the selection between acquisitions and greenfield investments. This approach demonstrates that the relevant themes could be employed to discriminate among all three entry modes. Based on the discussion in section 3.3.1.2 resource-related themes could differentiate greenfield investments from the rest, and control-related themes could differentiate joint ventures from the rest. Therefore, the combination of control and complementary resources should determine which

FDI entry mode is most appropriate. Studying all three FDI entry modes separately may be essential, because the result of conflicting motives may not be captured by studying only two entry modes. For example, if the firm requires complementary resources, but is not willing to invest the resources required to assume full control, then a joint venture should be selected. A study of acquisitions and greenfield investments cannot apprehend this, and it may find inconclusive results. The discussion on the last weakness of the resource-driven stream should indicate this clearly. Further supportive arguments will follow in the next paragraph.

Studies employing the concept of complementary resources are quite inconsistent because they do not examine the same entry modes. While they investigate the same factors and employ the same themes, they test different hypotheses. For example, resource-based studies investigating joint ventures argue that a product diversification strategy should result in the selection of a joint venture because the firm requires complementary resources (Stopford and Wells 1972; Gomes-Casseres 1989; Hennart 1991). With the same argument Yip (1982) has concluded that acquisition should be selected.

Empirical results are mixed. Hennart (1991) has found product diversification to be associated with the selection of joint ventures, whereas Padmanabhan and Cho (1996) have not found a significate association. In fact, Table 3.4 indicates that the five studies which have investigated

product diversification, have reached five different results.

So which are the valid results? For once, the stream of research under examination contributes to the inconsistent results. Studies assume that wholly-owned investments cannot provide access to resources (Stopford and Wells 1972; Kogut and Singh 1987; Gomes-Casseres 1989; Hennart 1991). This is not true, because acquisitions which are wholly-owned investments can facilitate access to resources. To resolve this problem it must be emphasised again that all three entry modes should be studied separately in the same framework.

In summary, the joint study of control and resource-related themes did not cover, as one would expect, all major factors examined by the control-driven and resource-driven streams of research. The empirical findings of these studies overall have clarified the effects of certain factors on entry mode selection. The application of competing theories has revealed that the selection among all FDI entry modes should be considered simultaneously.

The following section will summarize the discussion on the internationalization of banking and on entry mode selection.

3.4. SUMMARY

In this chapter the literatures on the

internationalization of banking and entry mode selection were reviewed.

Literature on the internationalization of banking has not addressed entry mode selection despite new trends in the industry which suggest its importance in facilitating the bank's strategic priorities. The application of Dunning's theory in banking has set the groundwork for addressing the identified gap because it is compatible with the themes advanced by entry mode selection research. As a result, the variables identified under the three advantages can be utilised to operationalize input factors to an entry mode selection framework.

Review of the entry mode selection literature has indicated that the choice of entry modes should be considered as an issue of control and complementary resources. Entrants evaluate their control and resource requirements and select the entry mode accordingly.

The research driven by control has emphasised the risks associated with foreign entry and to a lesser extent the strategic motives of the firm. Meanwhile, the resource-driven literature has highlighted the entry strategies of the firm. It is interesting to observe that some factors were studied by more than one stream of research. However, the themes employed to link those factors to entry mode selection were different and sometimes competing. This could explain to some extent the mixed results reported by empirical studies.

Another contribution to this problem is the rough

proxies used to measure the factors examined. For example, the product diversification strategy of the entrant was approximated with a dummy variable[2].

The last stream of research which combined control and resource-related themes shed light on some of the conflicting results. Most importantly, however, it has demonstrated that some of the inconclusive results are due to the failure of the studies to examine the selection among all FDI entry modes simultaneously.

The objective of this study is to address entry mode selection in banking through a comprehensive framework. To achieve this, Chapter 4 will evaluate the strengths, weaknesses and gaps in the reviewed literature and develop the research questions. The mechanism for testing these questions will then be established.

[2] The variable is equal to one if the last two digits of the classification code of the core product of the parent were the same as those of the core product of the new venture.

CHAPTER 4: DEVELOPMENT OF A COMPREHENSIVE FOREIGN ENTRY MODE SELECTION FRAMEWORK IN BANKING

4.1. INTRODUCTION

In Chapter 3, the literature on the internationalization of banking and on entry mode selection were reviewed. Each field of study was evaluated from the perspective of entry mode assessment. The purpose was to identify the theoretical and empirical approach of various studies in order to determine the most appropriate method of addressing the entry mode selection in banking.

The objective of this chapter is two-fold. First, in section 4.2 and 4.3, to discuss the issues relating to entry mode selection in banking and formulate the research questions. Secondly, in section 4.4, to construct a comprehensive framework and develop testable hypotheses which can indicate the model's ability to explain the choice of entry mode.

4.2. RESEARCH ISSUES

The study of entry mode selection in banking attempts to fill a major gap in the literature of bank internationalization. Prior discussion on internationalization of banking contends that banks search for entries which can facilitate the implementation of their strategies, cope with fierce competition and balance

the risks associated with foreign markets (see section 3.2.1). This implies that banks take into consideration two motives; what is the optimal level of control required to allow the venture to carry its mission efficiently? and what resources are required in the market given the fierce competition and the high barriers? Determining control and resource requirements is therefore an important issue that must be resolved at any time a foreign entry decision is made.

The review of the literature has indicated that a number of issues must be considered in order to address the selection of entry modes in banking. First, the selection among all three foreign direct investment (FDI) entry modes must be studied. Then the concept of control and complementary resources must be adopted. Additionally, the complete set of themes identified in the entry mode selection literature must be applied. Finally, bank-related factors must be identified which can be linked to entry mode selection.

From an empirical point of view, attention should be directed first to the operationalization of the factors and then to capturing entries on a global scale. The following discussion will address each of the above issues. In instances where gaps, strengths and weaknesses were examined in detail in Chapter 3, discussion in this section will merely refer to them, but otherwise a detailed argument will be developed.

Bank entry into foreign markets is limited mainly to foreign direct investment, and therefore a complete entry mode selection framework should consider the choice among acquisitions, greenfield investments and joint ventures. The literature on entry mode selection, however, failed to address each of the three entry modes simultaneously. Despite this weakness, prior discussion has demonstrated that joint consideration of the concepts of control and complementary resources could discriminate among all three modes (for a detailed discussion see section 3.3.1.3). Therefore the selection of all FDI entry modes can now be addressed, building on the current literature.

Studies which have employed concepts of both control and resources have demonstrated that firms select the route to enter a market based on the interaction of control and resource motives (Stopford and Wells 1972; Gomes-Casseres 1989; Hennart 1991). For example, Hennart (1991) has argued that firms seek complementary resources to gain synergies, and they seek control to protect firm-specific assets. According to Hennart, the selection of a joint venture will depend on the strongest motive. For example, he has argued that it is the tacit nature of assets which often determines whether control is more important than complementary resources. In fact, Stopford and Wells (1972) have called the entry mode selection "an issue of desire for control and search for resources". Theoretical arguments, therefore, suggest that entry modes are selected

based on the comparative importance of control and resources.

In addition, foreign entry themes suggest that factors affect the firm's motive for control and/or resources and not the firm's entry mode choice. For example, Erramilli and Rao (1993), applying the process model, have argued that the lower the entrant's experience, the lower is the firm's desire for control. Furthermore, they have argued that desire for control will lead to firm to selection a joint venture.

Drawing on theoretical development, it is suggested that managers simplify the complexity of the entry mode decision by evaluating only their motives for control and resources which are developed after considering different venture-related factors. Despite theoretical development, empirical studies have suggested a link between factors and entry modes. As a result, none of the studies have measured the control and resource-related motives of the firm. This weakness highlights the failure of studies to explain inconsistent results, like the findings associated with firm size discussed in section 3.3.1.2. An appropriate framework, therefore, should link entry modes to the entrant's desire for control and complementary resources. These in turn should be linked to factors related to the host country, the target market and the firm. These factors include the foreign country risk, the target market attractiveness or the firm's diversification strategy.

To link factors to the firm's motives for control and resources, the comprehensive set of themes identified in the entry mode selection literature must be applied. These are transaction costs analysis, process model, coordination-configuration and barriers to entry. Even though streams of entry research do not employ all themes, a complete entry mode framework must incorporate all of them. Prior discussion has demonstrated that competing themes can have different influences on the firm's motives for control and resources (see section 3.3.1.3).

Employing a complete set of entry themes will contribute to the literature on internationalization of banking because it previously has employed only control-related themes. The themes applied are briefly summarised here. A stream of research building on the process model has attempted to explain the bank's commitment in a foreign market (Ball and Tschoegl 1982; Ursacki 1992; Petrou 1995). Furthermore, Gray and Gray (1981) have discussed the need for coordination and configuration of the firm's international activities. In addition, the application of Dunning's theory has recognised that the bank's ownership advantages are intangible (Gray and Gray 1981; Yiannopulos 19983; Cho 1986). However, the existence of bank-specific assets has not been linked to transaction costs. This is because the application of Dunning's eclectic theory emphasizes the benefits of internationalization and downplays the risks associated with it.

The resource-related theme has not been applied to the literature on internationalization of banking. Research has not been concerned with how individual banks compete internationally. As a result, it does not recognise that banks face competition in international markets and pursue strategies which require resources. However, the new trends associated with bank strategies, discussed in section 3.2.1, indicate that MNBs are greatly concerned with their international strategies, given the changing competitive environment. An entry mode selection framework, therefore, should address these issues.

Research on entry modes has identified a comprehensive list of factors. However, Table 3.4 indicates that empirical studies failed to address all these factors simultaneously. A framework considering a complete set of factors, therefore, should contribute to the entry mode selection literature. However, these factors must be operationalized in line with banking practice. For example, the parent's size is often measured in the entry mode literature by the firm's assets (Kogut and Singh 1987; Kogut and Singh 1988). This is not an appropriate measure of a bank's size as assets also include the bank's loan portfolio.

Despite the need for measures that are meaningful to banking, operationalization is not anticipated as a problem. Given the micro-economic approach taken by the application of Dunning's theory in banking, variables

identified under the three advantages (namely ownership, internalization and location) can be employed to develop measures for input-factors in an entry mode selection framework. An example of this, is the measurement of the "need for coordination". Entry mode research has measured it by the percentage of the firm's sales to other network operations (Gomes-Casseres 1989; Hennart 1991), or by the degree of sharing across different functions (Kim and Hwang 1992; Gencturk and Aulakh 1995). However, Gray and Gray (1981), studying the internalization advantages of the MNB, identified a list of sharing activities within the MNB's network (see Table 3.2). Capturing those activities in the operationalization of the "need for coordination" is a better measure.

The empirical investigation of an entry mode framework should resolve operationalization and methodology problems. A striking operationalization problem is the measurement of product diversification strategies (see section 3.4). Overall, the measurement of factors is often hindered by the absence of appropriate data. Lack of good data on foreign ventures is a notorious problem in international business research (Kim and Hwang 1992). Most of the empirical studies use secondary data either from proprietary databases such as the Harvard Multinational Enterprise Project database, or from published sources such as the U.S. Department of Commerce's publications on foreign direct investment (Hladik 1985; Kogut and Singh

1988; Blodgett 1991), or from a survey of the firm's data (Davidson 1982; Kobrin 1988; Erramilli and Rao 1993). These data provide annual report type of information.

Only two recent studies made use of direct responses to perceptual questions on entry mode selection (see Agarwal and Ramaswami 1992; Kim and Hwang 1992). Perceptual data are important precisely because they reflect the setting in the entry mode choice is made. In the organizational behaviour literature, there is wide support for the importance of managerial perceptions in decision-making (Cyert and March 1963). Moreover, perceptual measures allow for multiple-item representation of important factors, unlike the case of aggregate data at firm level which consists of single-item proxy variables. Studies in many instances have attributed mixed results to operationalization problems (Kogut and Singh 1988; Kim and Hwang 1992; Erramilli and Rao 1993). Therefore, measuring the perceptions of managers who decide about entry modes should improve the quality of results.

Furthermore, empirical research on entry modes has been limited by the number of countries where investment originates and/or is targeted. Most of the studies focus on entries directed to the U.S. or entries of U.S. companies in foreign markets (Hennart and Park 1993). This can be attributed to the rich data available on U.S.investment overseas or foreign investment in the U.S. through governmental agencies or university databases. For example, a sizable amount of research has drawn data from the

Harvard Multinational Enterprise Project Database which recorded data on the international activities of U.S. multinationals (e.g. Stopford and Wells 1972; Davidson and McFetridge 1985; Gatignon and Anderson 1988; Gomes-Casseres 1989; 1990). Unfortunately, this is not the case for investment of other countries. The opportunities which have risen in other regions of the world such as the Asia-Pacific, European Union, Eastern Europe, and South America have attracted MNEs from Europe, Japan, Australia and Canada. For example, Smith (1992) reported that the three billion dollars foreign investment in Central Europe was dominated by German firms. In addition, Hoschka (1993), measuring foreign bank entries in the European Union, has indicated that the majority of the entrants were European banks. Despite these trends, no study has been identified which investigates entries on a global basis. A study of this nature could report results which are not specific to any context and which could therefore improve explanation of the entry mode selection.

To summarize, the strengths, weaknesses and gaps in the literature on internationalization of banking and entry mode selection were discussed. Two main strengths were identified: the comprehensive set of entry-related themes examined and the ability of Dunning's theory to identify FDI-related factors at firm level. Furthermore, three weaknesses were discussed: the failure of individual studies to consider a comprehensive set of entry-related

themes, the deficiency to measure the firm's motives for control and resources and methodology problems. In addition, a few gaps were perceived in the literature: the lack of entry mode selection research in banking and the failure of entry mode studies to consider all FDI options.

The following discussion states the objectives of this study and formulates the research questions to be answered.

4.3. OBJECTIVE

The aim of this study is to comprehensively investigate the entry mode selection strategies in banking. To fulfil this aim, two objectives are set: first, to develop a comprehensive framework of entry mode selection and secondly, to test its suitability for explaining entry mode selection.

This model should be capable of considering a complete set of factors and themes and be driven by the firm's motive for control and complementary resources. It should therefore discriminate among all three FDI entry modes. Further, it should reflect the entry mode selection mechanism.

Testing of the model should demonstrate whether it is capable of explaining the FDI entry mode selection. Further, it should investigate the effects of every factor examined on the entry mode selection. Emphasis will be placed on the effects of strategic motives which are anticipated to play an important role in the entry mode

selection.

To achieve these objectives the following research questions will be investigated:

a. Does management's desire for control and need for complementary resources determine the FDI entry mode selection in banking?

b. Do the factors examined determine the MNB's desire for control?

c. Do the factors examined determine the MNB's need for complementary resources?

In the next section, the foundation for answering the research questions will be established. An entry mode selection framework will be constructed and testable hypotheses will be developed. Additionally, the input factors to the model will be operationalized using measures which capture the decision makers' perceptions.

4.4. A FRAMEWORK OF ENTRY MODE SELECTION IN BANKING - CHALLENGING THE CONVENTIONAL APPROACH

The attributes of an entry mode selection paradigm will be assembled here to form a comprehensive framework. This model will challenge the conventional empirical approach by suggesting that managers simplify the influence of a large set of factors related to entry modes through two filters, their motives relating to control and to resources. In this section, the two-stage structure of the

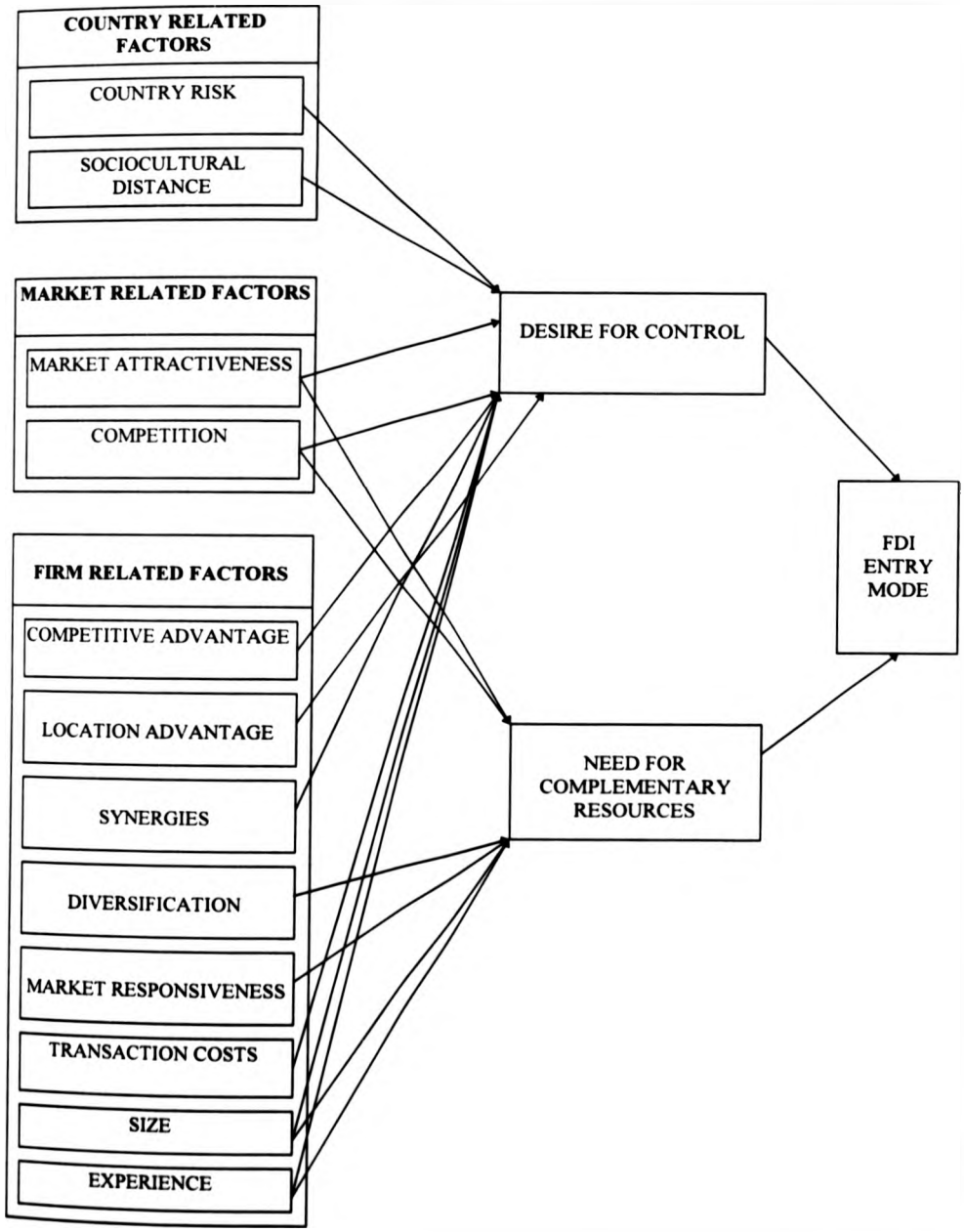
framework will be presented, and then in section 4.4.1. the linkages between the different components will be established through testable hypotheses.

Figure 4.1 shows the comprehensive framework which is the appropriate tool for studying entry mode selection in banking. The model's characteristics are discussed below.

The framework can simultaneously consider the selection among all FDI entry modes and as such can present any entry mode route available to a bank pursuing foreign investment. Using this model, bank executives should be able to determine whether an acquisition, a joint venture or a greenfield investment is the most appropriate entry route.

The framework is a two-stage model with the MNB's desire for control and need for complementary resources being the link between entry modes on the one hand, and firm, market and country-specific factors on the other hand. Prior discussion has demonstrated that the interaction between the MNB's motives for control and complementary resources, to be labelled for our purposes as **constructs**, can determine the FDI entry mode selection (see section 3.3.1.3). It is therefore proposed that in reality managers simplify the selection of entry modes. Instead of considering a large set of factors, managers choose entries based on their motives for control and resources. Current literature has not considered managers' motives regarding control and resources and therefore, has linked venture-

FIGURE 4.1. AN ENTRY MODE SELECTION MODEL



related factors directly to entry modes. This simplification has resulted in the literature's failure to explain inconsistent results because the interaction between the two constructs could not be observed (for a detailed discussion see section 3.3.1.3).

However, to understand the entry mode selection process, one must unfold the complex influence structure of a complete set of factors at different levels (country, market, firm) on the desire for control and the need for resources. To facilitate this linkage, factors associated with the four themes identified in the literature review, transaction cost analysis, process model, coordination configuration and barriers to entry must be considered. Therefore, in addition to the factors identified in Chapter 3 (see Table 3.4), three more factors are included, the competition intensity in the target market, the MNB's strategy to adjust to local needs and the MNB's motive to exploit location advantages. Even though these factors have been identified as closely related to the adopted themes, they have not been extensively studied. For example, the location of the foreign operation is directly linked to the theme of coordination and configuration. Porter (1986) has argued that the configuration of the MNE's activities establishes the capacity to exploit location advantages. A detailed discussion on the relevance of these factors will follow in section 4.4.1. when their relationship to the constructs is examined.

The twelve factors included in the model are grouped

into three broader categories: country, market and firm-related. This classification was chosen for two reasons. First, it is the standard way of grouping factors in the entry mode selection literature. Second, it is general enough to capture any aspect which is internal or external to the firm (Yip 1982; Caves and Mehra 1986; Root 1987; Kogut and Singh 1987;1988; Gomes-Casseres 1989; Erramilli and Rao 1993).

In the foregoing discussion the entities of the model were presented. To completely establish the framework, in the next section the linkages in the model will be discussed and hypotheses will be developed.

4.4.1. *Hypotheses development and operationalization of factors - Unfolding the decision process*

This section establishes hypotheses which first link the constructs of desire for control and need for complementary resources, with entry modes, and then link each of the twelve factors with these constructs. Such an exercise will elucidate the decision process within an appropriate framework.

The discussion draws on relevant issues from the internationalization of banking and the entry mode selection literature discussed earlier. Emphasis is placed on applicable themes in order to resolve the controversies identified in Chapter 3.

Before testing the hypotheses, however, valid factor measures must be developed. Churchill (1993) has identified three types of validity: content, concurrent and construct validity. Content validity will be discussed in detail here as it is associated with the initial measure development. The other types of validity will be discussed in Chapter 5.

According to Churchill, content validity focuses on the adequacy with which the domain of the factor is captured by the measure. Therefore, content validity depends on the procedure that is used to develop the measure. Churchill (1993) has argued that the most critical element, in generating a content valid measure, is to conceptually define the domain of the factor and to include items from all the relevant dimensions of the factor. To achieve content validity, he has suggested conducting a thorough review of the literature in order to develop a list of initial items for each factor, and then discuss the items with experienced people.

Following Churchill's suggestions, an initial set of items for each factor was developed drawing on existing scales and theoretical arguments. The identified items were then discussed with nine senior bank executives who were familiar with the entry mode selection process.

In a two-hour informal discussion with each executive, the measure of each factor was discussed. The aim was to ensure that all factor dimensions were covered and further, that items were appropriate for operationalizing bank-specific factors. Changes introduced in the measures due to

the field work will be discussed in this chapter when the factors are considered.

Each of the following sections has a similar structure,

i) The construct or factor is defined together with the sources and/or derivation of that definition.

ii) Causal linkages between a) the constructs and the entry mode, and b) between the factors and the constructs are hypothesised and justified.

iii) Multi-item scales, by which the hypotheses will be tested, are derived.

Section 4.4.1.1. discusses the two constructs; "desire for control" and "need for complementary resources". Sections 4.4.1.2 to 4.4.1.4 discuss each of the twelve factors outlined in Figure 4.1. Section 4.4.2 summarizes the hypotheses and presents the full model of entry mode choice.

4.4.1.1. Linking constructs to entry mode - simplifying the entry mode selection

The primary thesis presented in this work is that a company's, and specifically a bank's, choice of mode of entry into a foreign market where that entry requires the commitment of considerable financial and/or managerial resources, is determined by two multi-factor constructs:

i) the desired level of control over the new venture and,

ii) the need for access to resources not currently available to the firm.

It is hypothesised that, while the number of variables affecting an entry mode selection are large, decision makers have difficulty dealing with such complexity and will thus try to simplify the task by modelling the decision. The most parsimonious model, suggested here, is that the organization asks itself two questions:

"What level of control do we wish to have over the new enterprise (or conversely, what level of control are we prepared to give up)?" and

"What resources do we need in the foreign market which we cannot transfer?"

It is thus suggested that, although there are a number of factors involved in the selection of entry modes (e.g. country risk, intensity of competition, diversification strategy), these factors are reflected in these two constructs. For example, the standard view of a diversification strategy assumes that the entrant lacks technical and commercial skills which equates to perception of a resource deficit. These relationships will be further expanded in the following discussion. So let us look at these two constructs in more detail.

Desire for Control

Desire for control is defined as "management's motive for authority over the operational and strategic decision-

making" (Hill et al. 1990).

Prior discussion on control (see section 3.3.1.1) has identified three control-related dimensions: the MNE's concern to resolve conflicts, to protect its intangible resources and to carry strategies efficiently. These control dimensions are influenced by firm, market and country-related factors, as the discussion on factors in the next section will indicate. For example, a firm exploiting competitive advantage will seek control of its venture because control can facilitate efficient execution of the firm's strategies.

Studies on selection of entry modes have consistently argued that ownership is the mechanism whereby MNEs can resolve the above concerns (Anderson and Gatignon 1986; Hill et al. 1990; Kim and Hwang 1992; Woodcock et al. 1994). Control mechanisms which are not based on ownership are considered slower and less efficient compared to ownership mechanisms because partners have greater scope to act opportunistically (Killing 1983; Woodcock et al. 1994). As a result, joint ventures have been associated with a medium level of control because ownership is shared with partners (Anderson and Gatignon 1986; Hill et al. 1990; Kim and Hwang 1992; Erramilli and Rao 1993; Woodcock et al. 1994). It is anticipated therefore that:

H1a: the greater the MNE's desire for control the more likely is the selection of greenfield investments or acquisitions over joint ventures.

The measure of desire for control will contain variables reflecting the dimensions identified above: to carry strategies efficiently, to protect intangible resources and to resolve conflicts. Each of these dimensions is discussed below.

Attainment of a firm's objectives over the long-term is contingent on its ability to implement a strategy which exploits its competence on several dimensions of corporate activity (Porter 1986; Prahalad and Hamel 1990). Insufficient control can limit the MNB's ability to coordinate activities or effectively utilise resources (Stopford and Wells 1972; Anderson and Gatignon 1986). Furthermore, exercising control over the critical functions of the foreign venture protects the firm from exposing its proprietary resources. This aspect is particulary important in banking due to the information intensive nature of the industry and the absence of copyrights and patents (Casson 1989; Enderwick 1989). Protecting the MNB's proprietary resources can prevent opportunistic behaviour which often leads to conflicts with partners (Williamson 1975; Anderson and Gatignon 1986). Casson (1987), summarizing the above argument, has stated that control of a foreign venture can be achieved through managerial responsibility on the sources of firm proprietary advantage.

Besides the sources of conflicts discussed above, Robinson (1978) has argued that conflicts between partners can also arise from disagreement on important decisions often taken at senior level. Robinson has identified

Table 4.1. Indicators of desire for control

Desired control of	Authority over
1. Marketing	Products, pricing, sales and communication strategy
2. Accounts relationship	Managing clients
3. Information technology	Systems' development
4. Operations	Delivery of customer service
5. Management selection	Recruitment and promotion of senior managers
6. Capital expenditure	Investments in projects
7. Dividend policy	Returns to shareholders
8. Re-investment of earnings	Managing shareholder's value
9. Overall desired control on the venture	The required authority over the foreign operation

several areas such as, dividend policy, reinvestment and management selection. According to Robinson, partners have strong interests in such issues and unless one partner has control over these decisions, it is very likely that conflict will arise.

The proprietary functions identified in banking are, marketing and accounts management, technology, operations and risk management (Tschoegl 1987; Shannon 1988; Hoschka 1993). Hoschka (1993) has argued that commercial knowledge and skills reside in the above functions, and that

therefore they are sources of competitive advantage. For example, client information gathered through accounts management in one operation can be utilised for assessing risks associated with client business in other locations (Yiannopulos 1983).

The preceding discussion has argued that in order to effectively operationalize desire for control, one must measure control across the critical activities of the venture. The measure adopted in this study will cover the important functional activities in banking and the areas of possible conflict as identified by Robinson (1978). The variable employed along with their definitions are shown in Table 4.1.

Need for complementary resources

Need for complementary resources is defined as "the resources required to effectively compete with incumbent firms which cannot be developed instantly" (Chatterjee 1990).

Greenfield investment cannot provide the entrant with complementary resources. A firm pursuing a greenfield entry must mobilize or develop all resources required to establish a competitive position in the market. However, given that certain resources cannot be re-deployed or developed efficiently, greenfield investments are considered slow entry modes (Biggadike 1979; Wilson 1980; Hennart and Park 1993). On the other hand, the firm can

purchase the complementary resources required through an acquisition, or access them through a joint venture. Greenfield investments thus clearly differ from acquisitions and joint ventures. For example, a firm requiring a broad distribution channel to compete effectively with incumbents may need many years to develop from nothing (Buckley et al. 1992). Therefore, the entrant may choose to access the required distribution instantaneously in order to penetrate the market quickly. The distribution can be bought through an acquisition or made available to the firm through a joint venture (Hamill 1989; Buckley et al. 1992).

Drawing on the above discussion, it is expected that,

H1b: **the higher the need for complimentary resources the more likely is the selection of acquisition or joint venture over greenfield investment.**

The resources needed to overcome barriers to entry are not fixed. Discussion of factors, which follows in the next section, will argue that the resources required depend on firm and market-related factors. Overall, the resources required depend on (Stopford and Wells 1972; Yip 1982; Caves and Mehra 1986; Hennart and Park 1993):

i) the type of resources possessed by the entrant, which are related to the firm's size and experience;

ii) the speed of entry required, which is associated with market attractiveness;

iii) the resources required to compete effectively with incumbent firms, which are related to competition and the firm's diversification and market responsiveness strategies.

Consequently, managers evaluate the impact of lack of certain resources on entering the market effectively (Yip 1982; Chatterjee 1990). Literature on entry barriers has identified a number of firm-resource deficiencies which act as barriers to entry (for a detailed discussion see section 2.3.2.2). These are business skills, customer base, image, distribution and mass. The banking literature has confirmed the effect of lack of these resources on foreign entry. Buckley et al. (1992), studying U.K financial services' strategies in Europe, have identified a list of resources which they characterised as "barriers to quick entry".

According to Buckley et al. (1992), readily accessing resources such as distribution, local image and clientele was considered critical by managers, given the "over-banked" character of Europe. Studying bank entries from a global prospective, Walter and Smith (1993) have identified mass, distribution, skills and image as necessary resources to compete with international competitors. This is also supported by anecdotal evidence. The recent German acquisitions of U.K investment banks for example (Deutsche Bank acquired Morgan Grenfell and Dresdner acquired Kleinwort Benson), has been attributed to the need of German banks to access more skills in asset management, and strengthen their global distribution of such services

(The Banker, October 1995, pg.46).

Driven by the foregoing discussion, the operationalization of need for complementary resources will cover the sources found to pose difficulty in accessing market share. Market share has been chosen as the indicator of effective entry because research has found that managers are concerned with market share when entering new markets (Biggadike 1979; Porter 1980; Yip 1982; Burke 1984).

The variables measuring need for complementary resources and explanations of each variable are shown in Table 4.2.

Table 4.2. Indicators of need for complementary resources

Degree of difficulty in rapidly accessing market share caused by the lack of the following:	The barriers to enter a market efficiently caused by deficiency of
1. New business skills	Commercial know-how
2. An established customer base	Clientele on which can base initial efforts
3. A strong image	Reputation in market
4. An established distribution network	An existing system of delivering customer services
5. Critical mass	Business which can assure economies of scale

In summary, discussion of the two constructs has argued that MNBs are concerned with strategic efficiency, sharing of resources and accessing the resources required to effectively enter the foreign market. The first two

concerns determine the MNB's desire for control of the strategic activities of the foreign venture. To effectively achieve this, the MNB should seek ownership. The last concern raises the need for complementary resources. If the MNB requires resources which take time to develop, then it should avoid greenfield investments. The balance of the effects of the two motives on entry modes should determine the final outcome.

In the following sections the factors will be discussed. To avoid discontinuity, similar factors will be grouped together into sections. An introduction and a summary will accompany each section in order to link sections together. Discussion will start with macro-level factors and progress in a descending fashion.

4.4.1.2. Country-related factors - Sources of risk

There are two proposed country-related factors: country risk and sociocultural distance. Both factors are sources of risk due to the difficulty in assessing concepts like the future economic stability of the host country or the effects of cultural factors on the foreign venture. As a result, country risk and sociocultural distance were thought to contribute to managers' uncertainty about the success of the enterprise in the foreign country. Existing research (e.g. Anderson and Gatignon 1986; Erramilli and Rao 1993), using the process model theme, has linked country risk and sociocultural distance to the firm's

desire for control of the operation.

Country Risk

Country risk is defined as "the possibility that a sovereign power in the host country will interfere with the operations of the foreign venture" (Hwang 1988; Madhok 1993).

Overall there is agreement among researchers that country risk arises from three sources (Kobrin 1979; Root 1987):

i) future restrictions the host government may impose on foreign investors affecting the MNE's interests,

ii) political instability changing the current regime in which the MNE operates and

iii) economic instability affecting the MNE's performance in the host country

Research on the selection of entry modes has covered country risk quite extensively (Anderson and Gatignon 1986; Gatignon and Anderson 1988; Hill et al. 1990; Agarwal and Ramaswami 1992; Kim and Hwang 1992; Erramilli and Rao 1993). The consensus of arguments, driven by the process model theory, is that MNEs will prefer sharing control when they are faced with high country risks. High control modes entail commitment of more resources, and therefore they involve higher costs to the MNE in case of market exit.

Not surprisingly, empirical studies on country risk

have consistently found a strong positive relationship between country risk and the selection of shared control entry modes (Mascharenhas 1982; Gatignon and Anderson 1988; Agarwal and Ramaswami 1992; Kim and Hwang 1992). For example, Mascharenhas (1982) found that executives cope with risky countries through the use of shared control. Further, anecdotal evidence shows that, despite the absence of entry mode restrictions, joint ventures have been the primary entry mode of banks in emerging markets which are considered high risk countries (Jones 1994; The Banker, February 1995).

The consistent research findings suggests that,

H2a: **the higher the perceived host country risk perceived, the lower is the level of control MNBs will desire of the foreign venture.**

Country risk is a multidimensional concept which is difficult to capture in a single variable. Empirical studies employing single-variable measures, such as GNP per capita or number of riots, have proved inconclusive (Knudsen 1974; Kobrin 1979; Vernon 1983). Poor results have been attributed to the inappropriate measures which have been used (Kobrin 1983). Responding to the plea for better measures, Goodnow and Hanz (1972) developed a country risk classification by grouping countries into high, medium and low risk. The classification has been based on economic stability, foreign investment restrictions and temperate

climates. Even though the classification has been employed by some empirical studies (Gatignon and Anderson 1988; Erramilli and Rao 1993), the political changes which have taken place since the end of the Cold War have made the classification outdated

Root (1987) has identified four country-related risk variables: political instability risk, ownership risk, operations risk and transfer risk. There are shown in Table 4.3.

Root's classification captures most country risk dimensions. However, even though it is very explicit about the risk of government restrictions, it does not cover economic risks. Building on Root's dimensions, Kim and Hwang (1992) developed a reliable (at 79%) six-indicator measure. Kim and Hwang have made some of the dimensions proposed by Root more explicit (see Table 4.4).

Table 4.3. Root's classification of country risk

General instability risk - Uncertainty about the future volatility of the host country's political system.
Ownership risk - Uncertainty about host government actions that would destroy or limit the investor's ownership or effective control of his affiliate.
Operations risk - Uncertainty about host government acts that would constrain the investor's operations in the host country.
Transfer risk - Uncertainty about future host government acts that would restrict the entrant's ability to transfer payments of capital out of the host country.

Table 4.4. Country risk scale developed by Kim and Hwang

Instability of political system
Likelihood of government restrictions on ownership
Likelihood of government constraining the foreign operation with respect to: price controls
content requirements
Transfer risk with respect to:
currency inconvertibility
remittance control

Adopting the measure developed by Kim and Hwang (1992), country risk is operationalized in this study through a six-indicator scale. However, in order to adjust the scale to banking, content requirement and inconvertibility of currency are removed and stability of both currency and economy are added. Bank products are not prone to content requirements and therefore the indicator is not relevant. Furthermore, during the field work bank executives (9 out of 9) argued that banks avoid markets with inconvertible currencies. This is because currencies with no international value cannot facilitate the transfer of funds in and out of the host country, which is a major activity in banking.

Instead, executives have argued that often they are concerned about the instability of a country's currency, which increases the risk of international transactions. In addition, they felt that overall economic stability is seriously considered because it ensures that borrowers will

meet their obligations to the bank. Rising inflation for example, can significantly increase interest rates and affect the cost of borrowing. The devaluation of the Mexican peso early in 1995 which resulted in an economic crisis, underlined the vulnerability of MNBs operating in economically unstable countries. The economic uncertainties associated with foreign countries have been acknowledged by Miller (1992). He has argued that vulnerable exchange rates due to currency instability impose significant risks on MNEs who transfer funds in and out of the country. Therefore, economic stability and stability of currency are conceived as contributors to country risk.

The variables measuring country risk and explanations of each variable are shown in Table 4.5.

Table 4.5. Indicators of country risk

1. Political instability
   Turmoil due to ideological, ethnic or social conflicts
2. Likelihood of government restrictions on the ownership
   Uncertainty of government actions which can affect the bank's control of the venture
3. Possibility of price controls
   Uncertainty of government actions on the bank's pricing strategy
4. Possibility of restrictions on repatriation of income
   Uncertainty of government actions which can limit the bank's ability to take profits out of the host country
5. Economic instability
   Volatile changes in the main economic indicators (e.g. inflation, unemployment, trade deficit)
6. Instability of currency
   Volatile changes in the value of the host country's currency against the major international currencies

Sociocultural Distance

A number of studies have indicated that a major factor in the foreign investment decision is sociocultural distance (Davidson 1982; Kobrin 1983; Anderson and Gatignon 1986), defined as "the difference between home and host countries in terms of culture, systems and business practices" (Kim and Hwang 1992). Gatignon and Anderson (1988) have argued that firms entering "distant" countries are faced with information asymmetries which are distributed to their disadvantage when compared to incumbent firms. This is because the foreign venture must exchange information with economic, legal and social institutions which operate differently from those to which they are accustomed. Further, Erramilli (1991) has argued that firms cannot judge objectively how people should behave and how to evaluate inputs and results in unfamiliar settings.

Drawing on the above difficulties, foreign entry studies have suggested that firms entering "distant" countries will seek to relinquish some control to local partners who better understand the foreign country (Davidson 1980; Root 1987; Contractor 1990). In addition, research has argued that shared control modes can enhance the firm's flexibility enabling the entrant to withdraw from the host market in case it is unable to adjust to the unfamiliar setting (Anderson and Gatignon 1986; Hill et al. 1990). Empirical research on sociocultural distance has

consistently found a significantly positive relationship between great sociocultural distance and entry through shared control (Gatignon and Anderson 1988; Gomes-Casseres 1989; Kim and Hwang 1992; Erramilli and Rao 1993). Gomes-Casseres (1989) found that U.S MNEs would enter "distant" markets through joint ventures. For example, the odds of a joint venture in Argentina which is distant to U.S., were two-and-a-half times greater than to a joint venture in Canada. The above discussion suggests that:

H2b: **the higher the distance perceived by the bank executives between home and host country the lower is the level of control MNBs will desire of the foreign venture.**

Overall, there is agreement that economic, business, political and cultural variables constitute the dimensions of sociocultural distance (Goodnow and Hanz 1972; Green and Cunningham 1975; Kobrin 1976; Kim and Hwang 1992). However, the difficulty of measuring these dimensions has motivated researchers to follow different operationalization approaches.

Some studies used objective measures ranging from single proxy variables, like distance (Ball and Tschoegl 1982; Choi et al. 1986), to a number of indicators such as literacy rate, GNP, political system (Davidson and McFetridge 1985). The validity of such measures is questionable given their failure to encompass the areas identified above. Another set of studies delineate clusters

of countries based on similarities measured through attitudinal data (see Ronen and Shenkar (1985) for a review of eight comparative cross cultural studies).

However, the most widely adopted measure is the calculation of the cultural distance between two countries (Kogut and Singh 1988; Erramilli 1991;1993; Shane 1994; Arnott and Gray 1995) based on four indices developed by Hofstede (1980; 1983)[1]. Arnott and Gray (1995) have recently employed these indices to evaluate separately the effects of the different dimensions of cultural distance on entry mode selection. This operationalization, however, considers only the cultural dimension and cannot be employed in banking. A bank, being an intermediary, must monitor borrowers which are bound by contracts. Besides the culture, familiarity with the business and legal practices in the host country is also important. A bank that lends funds must understand the local accounting and legal practices to include the business practices of the borrower (Grubel 1989).

Hwang (1988), using a set of perceptual variables, has measured the main dimensions of sociocultural distance in terms of culture, economic, political and legal systems and business practices. A similar scale has been employed by Kim and Hwang (1992) and Madhok (1993).

Sociocultural distance will be measured using Hwang's

[1] The four dimensions measured are power distance, uncertainty avoidance, individuality and masculinity and are based on information provided by 88,000 respondents working for IBM across 40 countries. Recently, this researcher has identified another dimension which he has named long-term orientation.

scale. A variable will be added to this scale, which is associated with language difficulties. The fieldwork study has indicated that managers are concerned with communicating with the venture's environment (seven out of nine). One executive mentioned his bank's experience in Hungary: even though his colleagues were familiar with the host country's culture, they had problems in communicating with clients and local staff due to unfamiliarity with the local language. Empirical research on foreign entry has also reported language problems (Hedlund and Kverneland 1984; Buckley et al. 1992; Karakaya 1993). For example, Hedlund and Kverneland (1984) have reported that Swedish firms entering Japan considered language as the biggest barrier. The scale adopted, along with an explanation of each variable, is shown in Table 4.6.

Table 4.6. Indicators of sociocultural distance

Similarity,
Degree of closeness of the home and host countries in terms of
1. National culture
Customs, habits and social values
2. Economic system
The philosophy of production and distribution of wealth
3. Legal system
The process of setting and enforcing law
4. Political system
The philosophy of country governance
5. Business practices
The firm habits of interacting with suppliers and clients
6. Barriers developed by language
Obstacles in communication due to different mother tongue

In summary, the sources of country risks are economic and political developments in the host country, as well as regulations imposed by host government. Such developments can seriously harm the interests of the MNB, and therefore if risks are perceived to be high, MNBs will share control. On the other hand, the sociocultural distance between home and host countries raises uncertainty which is associated with the everyday operations of the foreign venture. Cultural, economic and political differences can thwart interaction of the venture with its clients, staff and local institutions. In such case, the entrant should choose to share control with partners who are familiar with the foreign country.

Target market factors, the next group of factors to be discussed, are sources of market opportunities and threats to the entrant and therefore, directly influence the venture's performance.

4.4.1.3. Market-related factors - different nature but like influence

Two factors will be considered, market attractiveness and intensity of competition in the target market. The effects of these factors on entry are different. An attractive market will appeal to the bank, whereas intensive competition in the market will deter the bank from entering. However, the themes, barriers to entry and transaction cost analysis suggest that both factors can

motivate a bank to search for complementary resources and for control simultaneously. Under what circumstances will the bank's motives regarding control and resources be affected and how? To answer these questions each factor is discussed in more detail.

Market Attractiveness

Market attractiveness is defined as "the potential of the target market to grow and yield profits to the foreign venture" (Hwang 1988). The potential of the market has been given a number of names in the literature, market growth (Kogut and Singh 1987; Gomes-Casseres 1989; Hennart and Park 1993), market attractiveness (Burke 1984; Hwang 1988), market potential (Agarwal and Ramaswami 1992). Researchers who have used the first term, have measured the growth of the market which does not reflect the definition employed in this study, and the name market growth can therefore not be used. The other two names capture more dimensions and are both equally useful. Market attractiveness is selected on an arbitrary basis.

Market attractiveness has been found to be an important determinant of overseas investment (Weinstein 1977; Choi et al. 1986; Terpstra and Yu 1988). Agarwal and Ramaswami (1992) have argued that a promising market is a necessary condition for long-term commitment. Multinational banks have been traditionally attracted by foreign markets with good potential (Terrel 1979; Khoury 1979; Sabi 1988).

This is demonstrated by the presence of MNBs in the major emerging markets (Campayne 1990), and the rush of MNBs to enter emerging markets where entry regulations are abolished. For example, according to The Banker (May 1995, pg.39), in response to foreign entry liberalisation in the Philippines, more than thirty MNBs expressed interest in entering the Philippines in 1996.

As discussed in section 3.3.1.3, research on entry modes has supported two different arguments concerning the effect of market attractiveness on selection of entries. Studies driven by transaction costs analysis (TCA) have argued that low growth markets increase the uncertainty of success of the new venture, and in such cases the MNE desires to share control. By contrast, growing markets present profit opportunities which the MNE will attempt to exploit through wholly owned investments (Kim and Hwang 1992; Agarwal and Ramaswami 1992). Studies driven by the entry barrier theme have argued that delaying entry into a market with high potential is considered as opportunity cost (Wilson 1980; Hennart and Park 1993) and therefore firms will choose speedy entries into the market (Dubin 1976). For example, Wilson (1980) has argued that the U.S. market potential motivated foreign MNEs to enter the U.S. quickly, in the author's own words, "to gain a foothold in the market - that is to say, to purchase market share".

Results from empirical studies on market attractiveness have been found contradictory. Studies applying transaction cost logic have found that wholly-

owned investments (i.e. greenfield investments and acquisitions) are preferred in attractive markets (Kim and Hwang 1992; Agarwal and Ramaswami 1992). Alternatively, studies applying the entry barrier theme found that acquisitions were preferred over greenfield investments (Caves and Mehra 1986; Hennart and Park 1993), or that joint ventures were preferred over greenfield investments (Hennart 1991). To resolve this inconsistency, the effects of market attractiveness on the MNB's desire for control and need for complementary resources will be observed separately (for a detailed discussion on the process of selecting entry modes see section 4.2).

As a result, two hypotheses are developed. Drawing on the results of TCA proponents, it is argued that,

H2c: **the more attractive is the target market, as perceived by the bank executives, the higher is the level of control MNBs will desire of the foreign venture.**

Furthermore, drawing on the results of entry barrier proponents, it is argued that,

H3a: **the more attractive is the target market, as perceived by the bank executives, the higher is the need for complimentary resources to enter the target market.**

Empirical research has operationalized market attractiveness either in terms of the market's size (Dubin

1976; Wilson 1980; Erramilli 1996), or the market's growth (Gomes-Casseres 1989; Hennart and Park 1993).

Recognising that such operationalization is incomplete, Burke (1984) developed a reliable scale (92%). He has measured managers' perception of short-term (3 years) market growth, initial profit margins, long-term (10 years) market growth and profit potential. A scale of this nature has been supported by Hoschka (1993) who has reported that banks use a range of criteria for assessing the attractiveness of a foreign market. The most important of these being profit margins, potential for long-term profits, growth and size.

Drawing on the above discussion and the definition of market attractiveness, Burke's (1984) scale has been employed. However, market size has been added to the scale because it is conceived as a measure of market opportunities. Large markets offer opportunities for product differentiation and economies of scale (Agarwal and Ramaswami 1992). The adopted scale was then discussed with bank executives. Discussion have shown that banks have different planning horizons and managers have different perceptions regarding the short-term and the long-term. For example, one manager perceived as short-term objectives the goals set for the next year whereas another executive thought of short-term as encompassing a three-year horizon. As a result, short-term and long-term will not be expressed as a specific number of years.

The variables which have been selected to measure

market attractiveness, after the discussed procedure, are shown in Table 4.7.

Table 4.7. Indicators for market attractiveness

1. Total market size
   A subjective understanding of the magnitude of all target customer segments. It could be in terms of number of customers, amount of deposits,amount of loans etc.
2. Short-term market growth
   The forecasted percentage change of the subjective measure mentioned above over the near future
3. Initial profit margins
   The current average difference between revenues and costs per unit of product in the market
4. Long-term market growth
   The forecasted percentage change of the subjective measure mentioned above over the more remote future
5. Prospects for long-term profits
   The forecasted average net income in the market over the more remote future

Competition

Competition is defined as "the present and future rivalry in the target market" (Porter 1980). Rivalry among competitors occurs when one or more competitors feel that they can improve their position in the market. In such a case, a move by one competitor results in counter attacks by other competitors whose interests are affected (Porter 1980). Intense competition in an industry can create a high level of instability because every competitor is fighting to gain market, share and therefore, the distribution of

market share can change depending upon the effectiveness of competitors (Porter 1980; Yip 1982). Competitive rivalry takes the form of price competition and advertising battles (Andrews 1971; Porter 1980; Porter 1987).

A firm entering a competitive market will have difficulty bypassing barriers and capturing market share quickly (Root 1987; Porter 1987; Karakaya 1993). Despite this, studies of foreign entries have not adequately investigated the effects of competition on selection of entry modes. For example, no study has adopted the barriers to entry theme in order to study competition. Drawing on entry barriers, one can argue that firms entering a competitive foreign market from nothing will face difficulty capturing market share because of the low prices and broad product differentiation in the market (Biggadike 1979; Hoschka 1993). For example, Ghoshal (1987) has argued that accessing mass in a new market is a source of economies of scale which are necessary to compete with incumbents in terms of price. This is because incumbents have already rationalised fixed costs due to competitive pressure. Further, the entry of HSBC in the UK through the acquisition of Midland Bank, can be explained to a degree by the fierce competition in the UK commercial banking sector. A slow entry into such an environment could be counter-effective due to the inability of the entrant to develop the complementary resources required (Euromoney, December 1992, pg.65).

The few studies which have investigated the effects of

competition on entry mode selection, applying transaction cost analysis, have argued that MNEs entering a competitive market perceive high uncertainty. As a result, they prefer committing fewer resources by sharing control (Harrigan 1985; Hill et al. 1990). Kim and Hwang (1992), the only study that empirically tested the effects of competition, found a positive relationship between competition and the MNE's propensity to share control.

In order to employ both TCA and barriers to entry arguments, two hypotheses are developed linking competition to both desire for control and the need for complementary resources. Therefore, adopting TCA logic it is argued that,

H2d: **the more intense is the competition in the target market, as perceived by the bank executives, the lower is the level of control MNBs will desire of the foreign venture.**

Further, drawing from the entry barrier theme, it is argued that,

H3b: **the more intense is the competition in the target market, as perceived by the bank executives, the higher the need for complimentary resources to enter the target market.**

The definition of competition suggests that managers are concerned with two competitive dimensions, the present

and the future rivalry in the target market. Tan (1992) supported this view by recognising that the above two dimensions are sources of uncertainty to the investor. The following discussion will identify variables which can be employed to measure competition.

According to Porter (1980), competition can be judged by two phenomena: the intensity of rivals' actions and the effectiveness of competitors. Brouthers (1995) has measured competition with a single direct perceptual measure. She asked managers to rate the intensity of competition in the market. This measure is not complete because it does not reflect the effectiveness of competition. However, given Porter's (1980) recognition that instability of market share directly reflects competition effectiveness, Brouther's measure can be employed along with the instability of market share to form a measure of the level of present competition in the market.

The contemporary competitive situation in a market may not reflect the actual competition the entrant will encounter when the entry is completed, for two reasons. First, incumbent banks may perceive the entrant as a threat and try to increase the barriers to entry. Caves and Mehra (1986) have argued that this is true in oligopolistic environments where incumbents enjoy above average profits. Secondly, more competitors can be attracted because they perceive opportunities or simply because they pursue a follow the leader strategy (Graham 1976).

Drawing on the above discussion the anticipated future

competition will be measured through two variables, the concentration of market share in the target market and the danger of future increase in competition. The first variable has been used to measure oligopolistic industries (Yip 1982; Caves 1982; Caves and Mehra 1986). The second variable reflect the managers' perception that more banks will enter the market in the future thus increasing the competitive activity in that market.

Therefore, four variables will be used to measure the present and future dimensions of competition as shown in Table 4.8.

Table 4.8. Indicators of competition

1. Intensity of competition	The perceived rivalry in the market proliferating in terms of advertising battles and price undercutting
2. Stability of a competitor's market share	Reflects the effectiveness of competitors in stealing market share
3. Danger for future increase in competition	Perceived entry of more competitors in the market
4. Concentration of market share into a few competitors	Possibility for reaction of incumbents to the bank's entry

In summary, market-related factors affect both the desire for control and the need for complementary resources. Market attractiveness motivates entrants to search for quick entry and control in order to benefit from the opportunities in that market. Intense competition, on the other hand, produces risks and raises high entry barriers. As a result, the entrant will desire shared

control, in order to avoid committing resources, and will search for complementary resources to overcome barriers efficiently.

Thus far, country and market-related factors have been investigated. The final group to be discussed is compiled from a diverse set of micro-level factors. These factors are related to the bank's strategies and characteristics.

4.4.1.4 Firm-specific factors - bank strategies and characteristics

Firm-specific factors include bank strategies and bank characteristics which can be classified into three groups: strategies related to Dunning's eclectic theory, product strategies and bank characteristics. Discussion will indicate that the first group of factors is closely associated with control and the second group is related to resources, whereas the last group is linked to both control and resources.

To effectively study the effects of firm-specific factors two innovative approaches will be adopted. Themes related to selection of entry modes will be incorporated with the application of Dunning's eclectic theory in banking. The configuration and coordination-related views will be merged with location and internalization advantage respectively to study bank strategies associated with synergies and selection of foreign location.

Furthermore, the effects of the defensive and offensive nature of proprietary resources on the desire for control will be separated. Research employing transaction cost analysis has focused on the risks associated with proprietary resources. However, Dunning's eclectic theory has suggested that proprietary resources can be used offensively to gain competitive advantage. As a result, two factors will be employed to capture the effects of proprietary resources. "Competitive advantage" will reflect a bank's offensive strategies, whereas "transaction costs" will reflect risks associated with transferring and sharing resources.

The following sections will discuss separately each group of factors, strategies related to Dunning's eclectic theory, product strategies and bank characteristics.

4.4.1.4.1. *Strategies related to Dunning's eclectic theory - command for control*

In this section three bank offensive strategies by banks are discussed, competitive advantage, location advantage and internal synergies. The following discussion will demonstrate that effective implementation of the above strategies commands control of the foreign venture. For example, a bank can achieve internal synergies only if it can control the flow of resources across different operations. To establish linkages between strategies and control lets discuss each factor separately.

Competitive Advantage

Competitive advantage is defined as "the exclusive possession and use of income generating assets" (Jones 1993). According to Jones there are two groups of competitive advantage; access and use of proprietary assets and economies of scale and scope. Applications of Dunning's eclectic theory in banking have suggested that possession and use of competitive advantages is a prerequisite for MNB foreign entry. This is because indigenous banks enjoy certain advantages over the entrant, such as, familiarity with the local market environment.

Strategic management research has stressed that competitive advantage results from the use of capability differentials which are intangible in nature and range from patents and licences to reputation and know-how (Hall 1992). Prahalad and Hamel (1990) have argued that decisions to enter markets should be guided by the potential to exploit competitive advantage and not just by the attractiveness of the market.

However, efficient utilization of proprietary assets in foreign markets can be achieved only if the firm has control of the venture. This can ensure efficient implementation of the firm's advantage-seeking strategies (Casson 1987, Geringer and Hebert 1989). By maintaining control, a bank can be assured that its knowledge is utilised to develop differentiated products and deliver services which meet customer expectations.

Despite the offensive use of competitive advantage, research on entry mode selection, driven primarily by transaction cost analysis, has studied the risks associated with transferring and sharing the firm's intangible resources (Anderson and Gatignon 1986; Hill et al. 1990; Agarwal and Ramaswami 1992; Erramilli and Rao 1993).

Empirical studies on intangible resources have consistently found a positive relationship between the existence of proprietary resources and selection of high control entry modes (Gatignon and Anderson 1988; Kim and Hwang 1992; Erramilli and Rao 1993; Padmanabhan and Cho 1996). However, the motivations which have driven this decision could equally be attributed to perceptions of risks or to the MNE's desire to efficiently exploit competitive advantage. In this sub-section a hypothesis will be developed supporting the latter argument. As has been discussed in the introduction of this sub-section, the aim is to separate the two effects. Driven from the above discussion it is anticipated that,

H2e: **the higher the motive to exploit competitive advantage, the higher is the level of control MNBs will desire of the foreign venture.**

Competitive advantage has often been measured by the size of the MNE (Ball and Tschoegl 1982; Cho 1986; Kogut and Singh 1988; Ursacki 1992). Researchers have argued that large firms possess the resources required to effectively

compete in foreign markets. This measure, besides being a very crude approximation, it does not capture the MNB's motivation to exploit competitive advantage. In addition, an appropriate measure must cover the most important sources of competitive advantage employed in banking. Discussion of the application of Dunning's eclectic theory in banking has identified a number of competitive advantages (see Table 3.2). In order to be in line with Jone's (1993) definition and strategic management research the proprietary and economy-related variables have been selected to form a measure of competitive advantage. Each variable is briefly discussed below.

A bank's reputation can be based on its credit worthiness or its sophistication. Banking institutions, agents and clients find it safer to deal with creditworthy banks (Gray and Gray 1981) which can enhance the bank's ability to borrow at cheaper rates. Further, a bank, which has the reputation of being sophisticated can develop differentiated products (Gray and Gray 1981). Marketing know-how can facilitate product differentiation and effective focus on neglected segments (Hennart 1982; Tschoegl 1987). Possession of client information can be used to make more accurate assessments of lending risks and of the needs of the target market (Grubel 1989). In banking, economies of scale bestow the advantages of risk spreading and arbitrage. The larger the size and diversity of the international activities of the MNB, the lowest the cost will be in relative terms of acquiring information on

currencies and managing exchange risk exposure (Yiannopulos 1983). Finally, economies of scope result from vertical integration. Gardener and Molyneux (1990), have argued that banks combine upstream activities like "efficient deposit-gathering" with downstream activities like advisory services and cash management.

The variables adopted to measure competitive advantage are shown in Table 4.9.

Table 4.9. Indicators of competitive advantage

1. The bank's reputation in the target market
   Client perceptions of the bank's credit worthiness and sophistication
2. The bank's knowledge of the target market
   Information about the business of potential clients
3. The bank's marketing skills
   Ability to develop, communicate and differentiate products
4. Potential for economies of scale
   Reduce cost of acquiring information and servicing clients and reduce risk exposure
5. Potential for economies of scope
   Achieve vertical or horizontal integration

Location advantage

Location advantage, defined as " the benefits accruing to a firm from location endowment factors" (Cho 1986) has received great attention in the literature on the internationalization of banking. Banking research, focusing on macro-level input factors associated with a particular

location, has identified three main sources of location advantages: country regulation, costs associated with operating in a foreign country and the existence of clients from the home country (Gray and Gray 1981; Cho 1985; Grosse and Goldberg 1991; Fisher and Molyneux 1996).

A complement to this approach is business strategy's focus on the set up of the MNE's operations. Under international competition the MNE must determine the optimum way to configure its operations in order to achieve the most efficient utilization of its resources. As such, it must assign to each venture in the network a strategic role (Porter 1986; Hill et al. 1990). A number of such roles have been identified in the literature: a strategic outpost for future expansion (Porter 1986; Kim and Hwang 1992), a global sourcing site (Morrison and Roth 1992; Kim and Hwang 1992), a knowledge provider (Porter and Fuller 1986; Ohmae 1989; Hamel et al. 1989) and a monitor of international competitors (Hamel and Prahalad 1985; Porter 1986; Hill et al. 1990).

Research on selection of entry modes has focused on the configuration of the MNE's network. Studies have argued that a firm benefits from the configuration of its activities when it has control which allows the firm to implement its location-specific strategies (Stopford and Wells 1972; Hill et al. 1990). Hill et al. (1990), discussing the entry of Texas Instruments (TI) into the Japanese semiconductor market, have argued that the venture's mission was to monitor the Japanese competitors

and limit their cash in order to prevent them from entering TI's markets. To achieve this goal, control was necessary because the local economic-related motives of a partner could conflict with TI's goals. Kim and Hwang (1992), in the only empirical study which has examined the effects of location strategy on entry mode selection, have confirmed the positive relationship between location strategy and selection of high control modes. The above discussion suggests that,

H2f: **the higher the motive to exploit location advantage, the higher is the level of control MNBs will desire of the foreign venture.**

Given the trends towards globalization of the banking industry discussed previously, a measure of location advantage must reflect both the banking and business strategy approach. Studies on internationalization of banking identified a number of factors under location advantage (see Table 3.2). Besides the traditional country-specific factors discussed in Chapter 3 (country regulation, differential operating costs and existence of home clients), a number of network-related factors have been identified. Yiannopulos (1983) has discussed economies of agglomeration. These result in financial markets where banks operate close to each other. In such an environment, the MNB's cost of transactions reduces, due to proximity and better assessment of the credibility of the other

Table 4.10. Indicators of location advantage

1. Clients from home country
   Existing customers who moved to the target country
2. Favourable regulatory/taxation environment
   Foreign country regulations that create profit opportunities
3. Lower operating costs
   Foreign country infrastructure which provides lower cost input factors such as personnel, communication etc.
4. A local opportunity
   A market in the foreign country which is not adequately served
5. Get closer to key financial institutions
   Existence of other major banks with which the entrant does business
6. Access deposits in local currency
   Need for host country currency which can not efficiently get in other markets
7. Access to global funds
   Need for international instruments which can not get efficiently in other markets
8. Establish a strategic outpost for future expansion
   Set up an operation, in an important for the bank geographic area, with a view to extent it in the future
9. Learn new skills essential for the bank
   Access know-how which is important for the growth of the bank
10. Monitor international competitors
    Watch the moves of rival banks in the foreign market

transacting parties. In addition Yiannopulos (1983) referring to the gains from maturity transformation, has argued that banks tend to develop a mix of wholesale and retail business. MNBs require a sizeable and stable retail deposit base to reap such benefits, which as he has explained enables the MNB to increase returns by lending those cheaper deposits in wholesale markets.

To measure location advantage, the main variables

identified in the literature on the internationalization of banking and the variables suggested by business strategy are shown in Table 4.10.

Synergies

Synergies is defined as "the possible level of joint use of the same assets between the new venture and the MNE's network" (Ghoshal 1987). Some studies have named the sharing of assets as "synergies" (Burke 1984; Ghoshal 1987; Kim and Hwang 1992) or alternatively "interdependence" (Hennart 1991; Madhok 1993). In this study the name "synergies" is arbitrarily adopted.

The application of Dunning's eclectic theory in banking has recognised that internalizing a market can facilitate the sharing and transferring of resources within a bank's network (Gray and Gray 1981; Yiannopulos 1983; Campayne 1990). Gray and Gray (1981), discussing internalization advantage, have suggested a comprehensive list of sources of internal synergies (see Table 3.2). The areas for potential synergies are briefly discussed.

An internalized venture can efficiently share physical assets such as distribution channels computer networks and funds with other MNB operations. A new HSBC venture, for example, can utilize Hexacon, a global computer network, to access information and carry out transactions. Another important source of synergies is efficient account management. A Citibank operation for example, can provide

more effective service to multinational customers than a local bank. Due to its global network, it can manage the account more efficiently by facilitating faster flow of information across sides (Terpstra 1982). A third area of synergies, is the potential for sharing commercial knowledge and skills. MNB operations can share commercial intelligence about different markets and industries and knowledge about operations and technology. Finally, synergies can be achieved by spreading risks across different locations and managing risks centrally (Rugman 1981; Campayne 1990).

The theory of coordination and configuration has recognised that synergies from a network of operations arise when coordination mechanisms are in place (Porter 1985;1986; Ghoshal 1987; Bartlett and Ghoshal 1989). Research on foreign entries, employing the above theme, has argued that synergies can be effectively achieved through hierarchical control (Stopford and Wells 1972; Gomes-Casseres 1989; Hennart 1991; Kim and Hwang 1992). Hill et al. (1990) have argued that control ensures that the new venture can have a higher level of synergy with the other business units of the organization because transactions can be carried internally. Empirical findings have confirmed the positive effects of synergies on selection of high control entry modes (Hwang 1988; Gomes-Casseres 1989; Hennart 1991; Kim and Hwang 1992). For example, Kim and Hwang (1992) have found that when a foreign venture shares functional activities (e.g. marketing, manufacturing,

distribution) with other MNE operations then a high control mode is selected. The foregoing discussion suggests that,

H2g: **the greater the perceptions of synergies, the higher the MNB's desire for control of the foreign venture.**

Synergies have been operationalized in a number of ways. Gomes-Casseres (1989), employing a crude measure, has approximated the factor through the venture's sales to other members of the parent's network. Similarly, Harrigan (1985) has measured the percentage of facilities shared within upstream and downstream business units. Kim and Hwang (1992), recognising that this operationalization is inadequate, have developed a perceptual measure to capture the degree of sharing in a number of functional areas such as, manufacturing, marketing and production. Even though this approach is appropriate due to the inclusion of multiple sources of internal synergies, it cannot be applied in banking because it covers only functional areas. Banks serve multinational clients across different locations, so activities like sharing commercial intelligence and transferring of funds are part of the bank's core operations.

To effectively measure synergies, this study will develop a perceptual scale employing sources of synergies which are relevant across a number of banking activities. To achieve this, Gray and Gray's (1981) comprehensive list of synergies identified under internalization advantage was

initially employed. Then the scale was discussed with bank executives who suggested that a variable should be included to measure the coordination infrastructure of the bank. According to executives, synergies cannot be achieved unless coordinating mechanisms are in place at head office to ensure that information and funds are laterally transferred across operations. Responding to this suggestion, which is line with the coordination theme, a variable was included measuring the level of coordination exercised at head office.

The variables employed to measure synergies are shown in Table 4.11.

Table 4.11. Indicators of synergies

1. Efficient interbank transfers
   Ability to shift funds quickly across the bank's operations
2. Sharing investments
   Ability to distribute capital to achieve maximum returns
3. Efficient account management
   Ability to manage multinational clients at more than one bank operation
4. Sharing commercial intelligence
   Ability to communicate information about markets and clients to other bank operations
5. Sharing know-how
   Ability to communicate skills gained by operating in certain environment to other bank operations
6. Reducing earnings variability
   Ability to spread risks in different markets
7. Global asset-liability management
   Ability to balance the bank's risk exposure
8. Degree of coordination exercised from head office
   Ability to synchronise the bank's operations

In summary, MNBs are expected to pursue three offensive strategies. First, to capitalise on the competitive advantage associated with skills, knowledge and reputation, secondly, to utilise positioning potential derived from local factors and configuration of operations and thirdly, to exploit internal synergies by facilitating the sharing and efficient flow of resources between the venture and the MNB's network. The implementation of each of the above strategies requires control over the foreign venture.

The following section will discuss product strategies. Such strategies require additional resources which the bank has to acquire efficiently.

4.4.1.4.2. *Product-related strategies - a quest for resources*

Two strategies will be discussed in this section diversification and market responsiveness. Both strategies require new knowledge and skills to facilitate entry into new business areas or respond to local needs. Therefore, the question often posed by researchers is, "How do the resource constraints affect the bank's entry strategy?". To answer this question each of the two factors is discussed in more detail.

Diversification

Diversification is defined as the "entry into a business area which is not core to the entrant's business" (Biggadike 1979; Yip 1982). Overall, there is consensus among researchers that diversification is a risky strategy because the firm faces high entry barriers. Diversification failures have been attributed to lack of marketing and commercial skills, brand reputation, and economies of scale (Biggadike 1979; Simmonds 1990).

Studies examining the mode of entering a foreign market, drawing on the barriers to entry theme, have argued consistently that firms pursuing diversification require complementary resources which are difficult to develop, such as, product skills and brand names (Wilson 1980; Yip 1982; Hennart 1991; Hennart and Park 1993).

Quite surprisingly however, the empirical findings are conflicting. For example, Gomes-Casseres (1989) and Hennart (1991) have found that product diversification is positively associated with joint ventures, whereas Yip (1982) and Hennart and Park (1993) have found that it is positively associated with acquisitions. The discussion in Chapter 3 about the effects of diversification on entry mode selection has attributed these conflicting findings to the failure of the empirical studies to examine all FDI entry modes simultaneously. When all three modes are examined under the proposed model, one should expect diversification strategy to be associated with the

selection of both acquisitions and joint ventures, since both provide the entrant with complementary resources.

Drawing on the above discussion, the following hypothesis is suggested:

H3c: **the more different is the business area entered compared to the MNB's core business, the higher is the need for complimentary resources in the target market.**

Most of the empirical entry mode selection studies have operationalized diversification through a dummy variable. This is equal to one if the last two digits of the classification code of the core product of the parent were the same with those of the core products' of the new venture (Yip 1982; Gomes-Casseres 1989; Zejan 1990; Hennart 1991; Hennart and Park 1993; Padmanabhan and Cho 1996). However, this measure does not indicate the degree of diversification from the core products of the MNE. As such, the actual resource needs of the entrant cannot be determined. In addition, measuring diversification compared to core products may not indicate entry into new business areas. This is true in banking where core products, such as current accounts, can be offered to new business segments like net worth individuals through a private banking venture. Even though core products are offered, a venture will require additional skills if the bank does not have experience with such a business.

To indicate the degree of diversification, a direct

Table 4.12. Indicators of diversification

1. Similarity of the venture's core products to the parent's core products
   Likeness of the venture's main products compared to the parent's main products
2. Similarity of the venture's core business to the parent's core business
   Likeness of the venture's main business line compared to the parent's main business line
3. Similarity of the venture's core customer segments to the parent's core customer segments
   Likeness of the venture's main customer segments compared to the parent's main customer segments

question is asked regarding the similarity between the area of entry and the area where the MNB's core business lies. However, the main operationalization issue is to identify the different types of diversification. This issue was explored via the field work study. Bank executives were asked to identify the different types of operationalization their bank had pursued in foreign markets. Three different diversifications were identified: i) into product areas such as unit trusts, leasing and factoring, ii) into business areas such as asset management and private banking and iii) into customer segments such as high-net-worth individuals and professionals.

Based on the executives' answers, a scale has been developed (see Table 4.12) which reflects the managers' perceptions regarding the similarity between the foreign venture's business and the parent's core business in terms

of products, business areas and customer segments.

Market Responsiveness

Market responsiveness, defined as "the reaction to local target market demands as part of the firm's overall international strategy" (Tan 1992), is pursued due to different client characteristics or expectations across countries. Researchers have named the firm's response to local needs as market responsiveness (Bartlett and Ghoshal 1989), multidomestic strategy (Hout et al. 1982) or national focus (Porter 1980). All names reflect the firm's local approach. The name "market responsiveness" has been arbitrarily selected to be used in this study.

According to Kotler (1991), the successful entry to foreign markets is often attributed to the MNE's ability to serve the local target market adequately by adapting products to the market's needs. Similarly, Porter (1980) referring to a national focus strategy, has stressed the importance of taking advantage of national market differences by offering superior, well differentiated products adapted to the target market's needs.

Banks have pursued local market response strategies. Hoschka (1993), in a study of cross-boarder entries in Europe, has found that British and German banks which operate in sophisticated banking systems have successfully entered countries with less advanced systems like Italy and Spain. He has accounted these strategies to the superior

products of these banks which were adopted to the local needs and were differentiated by employing the bank's marketing expertise.

Proponents of barriers to entry theory have argued that MNEs who adopt national market responsiveness strategies face significant entry barriers. This is because entrants require market knowledge, broader client reach and local image to serve their target market effectively (Porter 1980, 1986, Karakaya 1993). In addition, entrants pursuing a national focus strategy directly encounter local competitors who are already established in the market and enjoy local image and broad distribution channels. To effectively compete, the MNE must at least match the resources of the incumbents (Chatterjee 1990). For example, Quelch and Bloom (1996), have argued that Japanese firms, employing local adaptation strategies, have faced significant entry barriers particularly outside of the Asia-Pacific region where their knowledge and expertise lies. To achieve effective entry, Japanese firms have acquired local resources. Further, Buckley et al. (1992) have found that U.K. financial services entering European local markets were concerned with the lack of resources. As a result, these firms were pursuing entries which could provide resources to the firm.

Despite the direct relationship between market responsive strategies and need for complimentary resources shown above, research has not investigated the effects of local response on entry mode selection. However, drawing on

the above discussion it is proposed that,

H3d: **the greater the motive for market responsiveness, the higher is the need for complimentary resources in the target market.**

Failure to empirically study the firm's response to local markets has resulted in the abundance of market responsiveness measures. Consequently, operationalization will draw on theoretical arguments and the field work study.

Discussion has suggested that effective responsiveness to a local market requires product adaptation to local needs (Porter 1980; Kotler 1991) and product differentiation through local advertising (Porter 1980; Buckley et al. 1992; Hennart and Park 1993). These two dimensions were discussed with bank executives. Managers (seven out of nine) felt that market responsive strategies additionally require development of a broad product line. According to executives, customer loyalty in banking depends to a large extent on the ability of the bank to fulfil all financial needs of a customer. Given that local competitors often offer a broad line of products, entry with limited products could be ineffective in attracting customers.

Following the above discussion operationalization of market responsiveness will include three variables which are shown on Table 4.13 along with their definitions.

Table 4.13. Indicators for market responsiveness

1. Need for adapting the product to local tastes
   Importance of modifying products to fulfil the financial needs and expectations of target customers in the foreign country
2. Need for advertising support to the products
   Importance of differentiating the products from competitors' by communicating their advantages to target customers
3. Need for a wide product line
   Importance of developing a variety of financial products in the foreign market

In summary, MNBs pursuing diversification or market response strategies face high entry barriers because they don't possess necessary resources which incumbent firms have. These are product skills, brand names, and commercial knowledge. To capture the magnitude of the resources required, operationalization of diversification will measure the similarity of the targeted business area compared to the MNB's core products, businesses and customers. Furthermore, operationalization of market responsiveness will cover the degree of product adaptation, differentiation and width of product lines required to serve local customers.

The final group of firm-specific factors are bank characteristics. These factors affect the managers' perceptions of risks and the capacity of the entrant to effectively compete in the foreign market.

4.4.1.4.3. *Factors related to firm characteristics - influence of executive motives*

Three factors are considered: transaction costs, size and experience. Transaction costs are classified under firm characteristics because they are associated with the proprietary resources of the MNB. A number of studies have argued that such resources are embodied in the firm and as such, determine the firm's character (Ghoshal 1987; Prahalad and Hamel 1990; Chi 1994).

All three factors are resource-related. Size and experience add to the firm resources, whereas transaction costs are risks associated with mobilizing resources. The above firm characteristics are also the most researched factors. Is this because of their relationship to resources? Does the bank's size, for example, influence the executive's motives for control and resources? To answer these questions let us discuss each factor in more detail.

Transaction Costs

Prior discussion on proprietary resources has argued that both the offensive and defensive strategies associated with the firm's proprietary resources must be investigated. In the sub-section on competitive advantage, the benefits of mobilizing proprietary resources were discussed. Consequently, this sub-section will discuss the risks

associated with such resources.

Transaction costs, defined as "the risk associated with transferring and sharing proprietary resources" (Hwang 1988), have been extensively discussed in the relevant literature (Rugman 1981; Hennart 1982; Teece 1983; Anderson and Gatignon 1986; Hill and Kim 1988; Hill et al. 1990).

Banking is considered a transaction-specific industry due to its service and information-intensive nature (Enderwick 1989; Erramilli and Rao 1993). Service quality skills, commercial intelligence and customer information are critical assets to an MNB. As such, they are regarded as sources of competitive advantage (Yiannopulos 1983; Grubel 1989; Campayne 1990). Therefore, transferring and protecting these resources is critical. Yiannopulos (1983) has argued that the existence of proprietary resources may explain the comparatively low number of collaborations between banks.

Studies on selection of entry modes adopting TCA logic have argued that MNEs facilitate transfer and protection of their proprietary resources by demanding high levels of control of their foreign ventures (Anderson and Gatignon 1986; Hill et al. 1990; Agarwal and Ramaswami 1992; Erramilli and Rao 1993). Studies empirically investigating transaction risks have supported their theoretical arguments by finding a positive relationship between the existence of proprietary resources and the selection of high control entry modes (Gatignon and Anderson 1988; Kim and Hwang 1992; Agarwal and Ramaswami 1992; Erramilli and

Rao 1993).

Drawing on the above discussion it is anticipated that,

H2i: **the higher the transaction costs perceived by managers, the higher is the level of control desired by the MNB of the foreign venture.**

A number of studies attempted to measure transaction costs drawing on the TCA framework developed by Anderson and Gatignon (1986). The main arguments of this framework are shown in Table 4.14. Unfortunately, most of these studies have focused on the firm's proprietary resources rather than the risks associated with them (Gatignon and Anderson 1988; Gomes-Casseres 1989; Hennart 1991; Erramilli and Rao 1993). Agarwal and Ramaswami (1992) is the only study that has measured managers' perceptions of the risks associated with proprietary resources. They have

Table 4.14. Sources of uncertainty identified by Anderson and Gatignon (1986)

Uncertainty of transferring know-how
. Difficult to teach to partners
. Difficult to maintain at a partner's side
. Uncertainty associated with the first transfer is much higher than that of subsequent transfers.
Uncertainty of sharing proprietary resources
. Possibility of resource dissipation by partners
. Possibility of free riding by partners

operationalized transaction costs through three variables, costs of making and enforcing contracts, concern about maintaining standards of service quality and risks of dissipation or misuse of proprietary knowledge. Even though their approach is appropriate, their measure is incomplete. This is because they have not covered all dimensions identified by Anderson and Gatignon (1986). For example, they have not considered the risks associated with the transfer of proprietary assets.

The operationalization of transaction costs in this study reflects the variables under the two dimensions, transfer and sharing of resources, discussed by Anderson

Table 4.15. Indicators of transaction costs

1. Ease with which your bank's skills could be taught
   Uncertainty associated with the transfer of the bank's commercial know-how to an operation not fully controlled by the bank
2. Ease with which your bank's service quality standards could be maintained
   Uncertainty associated with maintaining the bank's level of customer orientation at an operation not fully controlled by the bank
3. Experience with teaching your skills to partners/affiliates prior to this venture.
   Familiarity with transferring commercial know-how to operations not fully controlled by the bank
4. Ease with which your bank's intangible resources could be misappropriated or dissipated
   Uncertainty related to partners' opportunistic behaviour
5. Ease with which potential affiliates/partners might benefit unfairly from your bank's intangible resources
   Potential for free riding

and Gatignon (1986). However, when the above measure was discussed with bank executives a change was introduced. Bank executives could relate the maintenance of proprietary resources at a partner's side to service quality standards. As a result, the difficulty of maintaining proprietary resources was explicitly linked to service quality. The variables measuring transaction costs alone with their definitions are shown in Table 4.15.

Size

Size, defined as "the human and financial resources available to the firm" (Terpstra and Yu 1988), has been regarded as a source of competitive advantage (Horst 1972, Buckley and Casson 1976, Terpstra and Yu 1988). Large firms have the ability to invest significant resources in the development of their organizations. As a result, they are often characterised by strong competencies (Hall 1992). Research on internationalization of banking has listed size under ownership advantage (Gray and Gray 1981; Yiannopulos 1983; Cho 1986; Tschoegl 1987). Yiannopulos (1983) has associated it with the bank's ability to serve the needs of MNEs for multi-currency and multi-line credit, whereas, Grubel (1989) with the bank's creditworthiness.

Studies on foreign entries have employed transaction costs analysis (TCA) and barriers to entry themes to link size to control and complimentary resources respectively. Studies employing TCA have argued that larger firms are

expected to have greater ability to commit resources and should desire higher control in order to capitalize on these resources (Agarwal and Ramaswami 1992; Erramilli 1996). Empirical studies employing TCA logic have consistently found a positive relationship between size and propensity for high control entry modes (Agarwal and Ramaswami 1992; Erramilli and Rao 1993).

On the other hand, studies employing barriers to entry logic contend that large firms have greater resources to overcome barriers to entry and therefore, should not require significant complimentary resources. Empirical findings are mixed. Yip (1982) and Kogut and Singh (1988) found a negative relationship between size and need for complementary resources. Whereas Caves and Mehra (1986) found the opposite. Kogut and Singh (1988) attributed the mixed findings to the sample of firms studied. This is because some studies drew upon data of the largest corporations. Despite the mixed results it is reasonable to argue that large firms should manage to overcome entry barriers more easily.

The above discussion suggests two hypotheses:
Drawing on TCA, it is anticipated that,

H2j: the larger the size of the MNB, the higher is the level of control desired by the MNB of the foreign venture.

Further, Drawing on entry barriers, it is anticipated that,

H3e: **the larger the size of the MNB, the lower is the need for complimentary resources to enter the market.**

Empirical studies on entry mode selection have measured parent size in a number of ways; number of employees (Erramilli 1991; Erramilli and Rao 1993), sales (Agarwal and Ramaswami 1992), total assets (Dubin 1976, Kogut and Singh 1987; Kogut and Singh 1988; Padmanabhan and Cho 1996). Since size has been linked to financial and human resources, it will be measured by the capital of the MNB at the time of the investment and the number of employees worldwide. Total assets will not be used because it includes the loan portfolio of the bank which is not a measure of resources. The proposed measure is also employed by The Banker to estimate bank size.

Experience

Experience, defined as "the knowledge accumulated by doing business in the host country" (Johanson and Valhne 1977), is a source of commercial know-how and knowledge about local business practices (Aharoni 1966; Johanson and Valhne 1977; Davidson 1982). Driven by experience's nature, literature on internationalization of banking has treated experience as an ownership advantage (Ball and Tschoegl 1982; Yiannopulos 1983; Cho 1986). Cho (1986) has argued that experienced MNBs accumulate information about a particular market and customer groups which they use to

differentiate their products.

Studies of foreign entries, recognizing that experience is a source of local know-how, have employed the process model theme and barriers to entry to explain its effects on the selection of entry modes. Process model proponents, drawing on the original ideas proposed by Johanson and Valhne (1977), have supported that market uncertainty, the decision-maker's inability to estimate market influencing factors, occurs mainly due to lack of market knowledge. As a result, they have argued that firms that lack experience will avoid committing substantial resources into the market, and thus, share control (Gatignon and Anderson 1988; Erramilli 1991).

Studies, employing the barriers to entry theme, have argued that entrants with limited market experience are not familiar with the local practices and therefore, don't know how to run the foreign venture. As a result, entrants will require complementary resources to do so (Gomes-Casseres 1989; Hennart 1991; Hennart and Park 1993).

Empirical studies, employing the process model theme, have consistently found a positive relationship between experience and selection of high control entry modes (Gatignon and Anderson 1988; Gomes-Casseres 1989; Hennart 1991). However, studies adopting barriers to entry logic have found insignificant results (Wilson 1980; Zejan 1990; Hennart and Park 1993). Discussion in Chapter 3 has attributed the confusing results to the failure of entry barrier studies first, to study joint ventures and second,

to consider the effects of experience on control.

To resolve the above confusion two hypotheses will be developed linking experience to both control and resources. Following the process model explanation, it is suggested that,

H2k: **the less the experience of the MNB, the lower is the level of control desired by the MNB of the foreign venture.**

Furthermore, regarding experience as a source of market-related resources, in line with the arguments of entry barrier proponents, it is suggested that,

H3f: **the less the experience of the MNB, the higher is the need for complimentary resources to enter the market.**

Overall, there is an agreement in the operationalization of experience. Most of the empirical studies have measured it by the number of years the firm has been in the foreign country before the entry under examination (Davidson 1982; Kogut and Singh 1988; Zejan 1990; Hennart 1991; Hennart and Park 1993; Padmanabhan and Cho 1996). As a result, the same operationalization will be adapted in this study.

In summary, banking is a transaction-specific industry and as such, managers should perceive risks associated with transfer and sharing of resources. To effectively capture

these perceptions, a comprehensive measure is developed which reflects on the ease with which banks could transfer, maintain and protect proprietary resources.

Size and experience indicating the depth of the MNB's resource-reservoir are regarded as ownership advantages. Therefore, large and/or experienced firms should demand control to best exploit and protect such resources. Further, they should perceive lower barriers to entry because the mismatch between required and possessed resources should not be large.

The next section will summarize the hypotheses suggested in this section.

4.4.2. *Summary of hypotheses*

The hypotheses to be tested in this study are collected below. Hypotheses are grouped by the research question they aim to answer.

With respect to the research question **"Does management's desire for control and need for complementary resources determine the FDI entry mode selection in banking?"** the following hypotheses will be tested:

H1a: The higher the MNB's desire for control the more likely is the selection of greenfield investments or acquisitions over joint ventures.

H1b: The higher the complementary resources required by the MNB the more likely is the selection of acquisition or joint venture over greenfield investment.

With respect to the research question **"Do the factors examined determine the MNB's desire for control?"** the following hypotheses will be tested:

H2a: The higher the host country risk perceived by bank executives, the lower is the level of control MNBs will desire of the foreign venture.

H2b: The higher the sociocultural distance perceived by the bank executives between home and host country the lower is the level of control MNBs will desire of the foreign venture.

H2c: The more attractive is the target market, as perceived by the bank executives, the higher is the level of control MNBs will desire of the foreign venture.

H2d: The more intense is the competition in the target market, as perceived by the bank executives, the lower is the level of control MNBs will desire of the foreign venture.

H2e: The higher the motive to exploit competitive advantage, the higher is the level of control MNBs will

desire of the foreign venture.

H2f: The higher the motive to exploit location advantage, the higher is the level of control MNBs will desire of the foreign venture.

H2g: The greater the perceptions of synergies, the higher the MNB's desire for control of the foreign venture.

H2i: The higher the transaction costs perceived by managers, the higher is the level of control desired by the MNB of the foreign venture.

H2j: The larger the size of the MNB, the higher is the level of control desired by the MNB of the foreign venture.

H2k: The less the experience of the MNB, the lower is the level of control desired by the MNB of the foreign venture.

With respect to the research question **"Do the factors examined determine the MNB's need for complementary resources?"** the following hypotheses will be tested:

H3a: The more attractive is the target market, as perceived by the bank executives, the higher is the need for complementary resources to enter the target market.

H3b: The more intense is the competition in the target

market, as perceived by the bank executives, the higher the need for complementary resources to enter the target market.

H3c: The more different is the business area entered compared to the MNB's core business, the higher is the need for complementary resources in the target market.

H3d: The greater the motive for market responsiveness, the higher is the need for complementary resources in the target market.

H3e: The larger the size of the MNB, the lower is the need for complementary resources to enter the market.

H3f: The less the experience of the MNB, the higher is the need for complementary resources to enter the market.

The hypotheses are also presented in Table 4.16. The expected positive or negative effects of each factor on constructs and of each construct on entry modes are shown. A plus sign (+) under a mode(s) indicates that the higher the construct across the sign, the more likely is this mode(s) to be chosen over the mode(s) with no sign.

Figure 4.2 shows the complete entry mode selection framework. This Diagram shows the elements of this model, namely the firm and environment specific factors, the

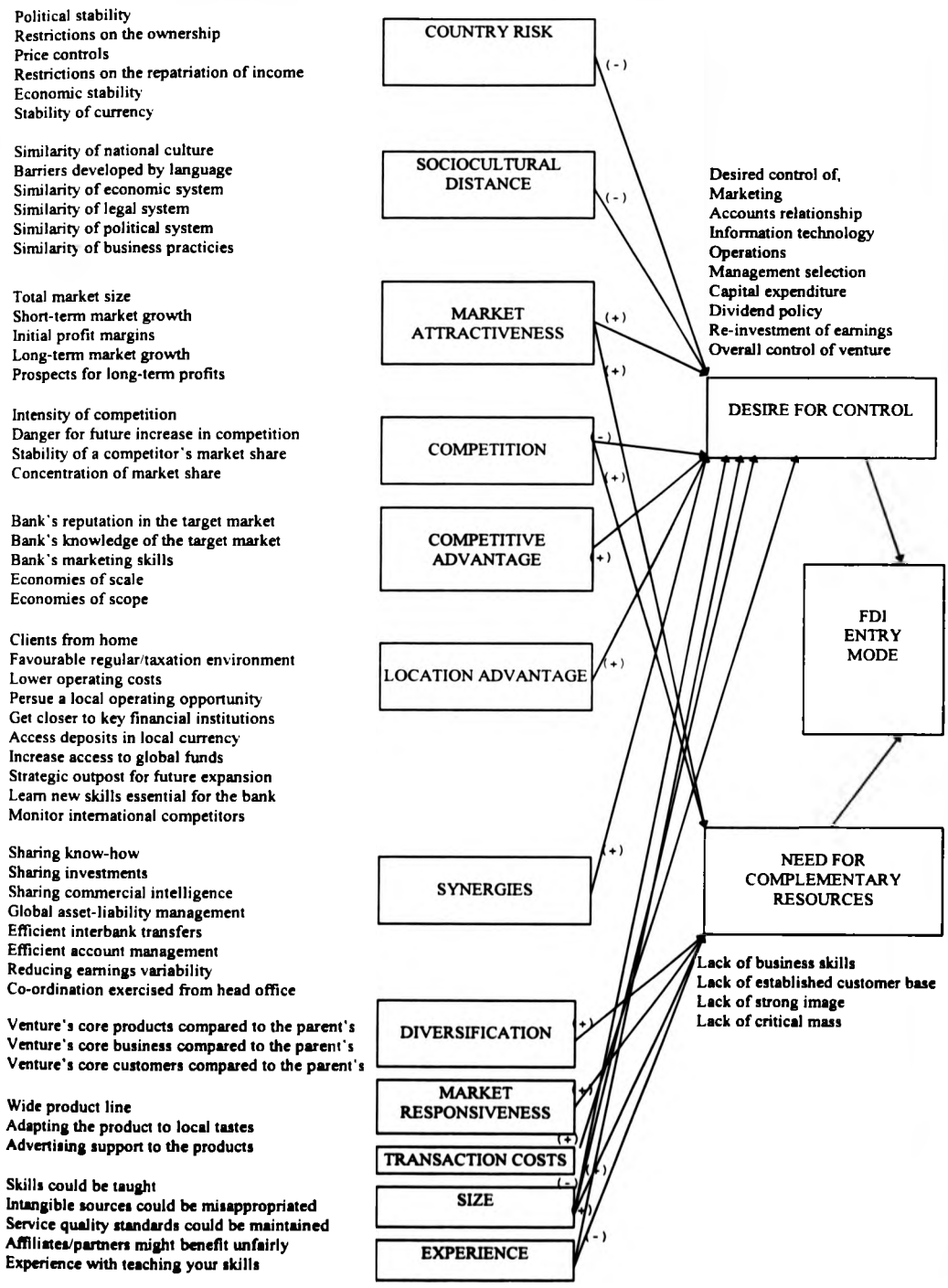
Table 4.16. Summary of the model hypotheses

Construct	Mode of Entry		
	Greenfield	Acquisition	Joint Venture
Desire for control	+	+	
Need for complementary resources		+	+

Factor	Construct	
	Desire for Control	Need for Complementary Resources
Country risk	-	
Sociocultural distance	-	
Market attractiveness	+	+
Competition	-	+
Competitive advantage	+	
Location advantage	+	
Synergies	+	
Diversification		+
Market responsiveness		+
Transaction costs	+	
Size	+	-
Experience	+	-

constructs "desire for control" and "need for complementary resources" and the feasible entry routes, the relationships between these elements and the operationalization of each factor and construct. This model provides the theoretical framework of entry mode selection. The next step is to empirically test this model, however, before we discuss this issue, lets summarize this chapter by highlighting the appropriateness and quality of the framework developed.

FIGURE 4.2. THE PROPOSED ENTRY MODE SELECTION MODEL



4.5. SUMMARY

In this chapter the research issues have been discussed and the objectives of this study have been established. Research on the internationalization of banking has not studied systematically entry mode selection. In addition, research on entry mode selection has not managed to consider a comprehensive set of themes associated with the control and resource motives of the firm. As a result, entry mode literature has failed to consider all FDI entry options, namely greenfield investments, acquisitions and joint ventures. Drawing on these gaps, the aim of this study has been to develop a comprehensive framework of entry mode selection in banking. As a result, a two-stage model which can consider the selection among all FDI entry modes has been established (see Figure 4.2 for the complete model). A complete set of factors have been employed which reflect firm strategies, firm characteristics and the environment in which the foreign venture will operate. All relevant themes: transaction costs, process model, barriers to entry and coordination/configuration, have been adopted to develop hypotheses which link factors to desire for control and need for complementary resources. Furthermore, constructs have been linked to entry modes. Their effects on entry modes are expected to determine the entry mode selection. Control motives can differentiate joint ventures from acquisitions and greenfield investments and resource

motives can differentiate greenfield investments from joint ventures and acquisitions. Combination of the two constructs determines the appropriate entry route.

In addition, to resolve a longstanding problem with the operationalization of most of the factors, perceptual multi-variable measures have been developed drawing on previous studies and interviews with bank executives.

In order to test the framework of entry mode selection in banking, data on new foreign bank ventures have been collected through a research instrument. This instrument has been developed based on the operationalization of the factors and constructs. In the next chapter the process of collecting the data will be discussed. Further, the appropriateness of the data will be established. Then statistical techniques will be employed to validate the measures and develop factor scores. These scores will be employed to test the hypotheses.

CHAPTER 5: DATA COLLECTION, VALIDATION AND ANALYSIS

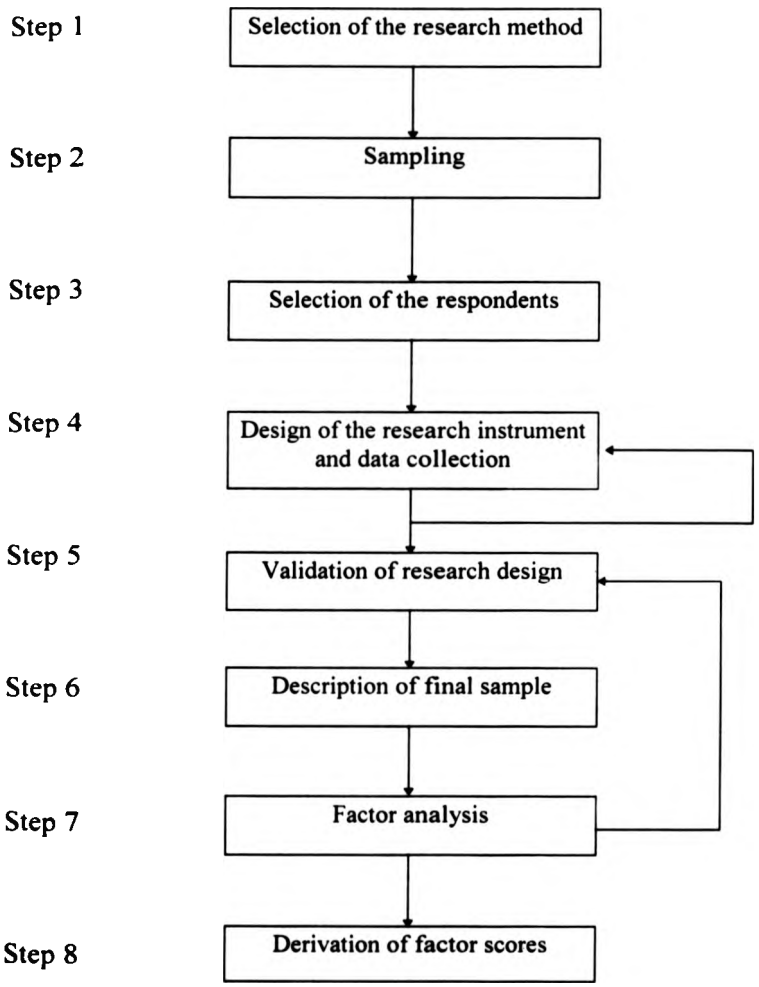
5.1. INTRODUCTION

In Chapter 4 a model of entry mode selection was developed proposing that the selection of entry modes is a two-stage process. In order to test the relationships proposed by this entry model, data will be collected from senior managers who are familiar with a recent entry decision of their bank.

Chapter 5 now discusses the methodology for the study and validates the research design. The process adopted is driven by three initial decisions: to employ a mailed questionnaire; to send the questionnaire to 600 bank executives; and to use exploratory factor analysis for deriving the factors hypothesised in Chapter 4.

Figure 5.1 shows the implementation stages of the research process employed (Dodge et al. 1982). The rational for selecting the research method will be discussed in section 5.2. The population of interest, the sampling approach and the profile of the respondents will be discussed in sections 5.3 and 5.4. Section 5.5 will discuss the survey instrument and the data collection procedure. To ensure that the acquired data are suitable, section 5.6 will validate the research design and evaluate the quality of the final sample. In section 5.7 the profile of the final sample will be discussed.

FIGURE 5.1. THE RESEARCH METHODOLOGY



Given that data are suitable for further analysis, section 5.8 discusses the procedure which has been used to derive the hypothesised factors and the results of factor analysis. Section 5.9 develops factor scores which will be used in subsequent statistical analysis. Finally, section 5.10 summarises the results of this chapter and lays the ground work for testing the entry mode selection model.

5.2. SELECTION OF RESEARCH METHOD

There are many research methodologies available which must be evaluated based on the research questions to be investigated (Tull and Hawkins 1990). Accordingly, these methods are examined and the most suitable approach for this study is selected.

5.2.1. *Qualitative versus Quantitative research approach - a matter of sample size*

In order to test the complex causal relationships hypothesised in Chapter 4, a large number of cases must be collected and analyzed through statistical modelling. This requires a quantitative research method. By providing pre-defined questions and requesting answers that fit in with certain formats, this method makes it possible to access a large sample. In contrast, qualitative research methods use participant observation and unstructured, in-depth interviewing which often results in small sample sizes not

representative of a population.

In considering what type of quantitative research method is the most appropriate, there are in general two options: personal interviews and mailed questionnaires.

The large-scale nature of this study meant that collecting statistically sound data from respondents on a worldwide basis would have been prohibitive for an interview survey due to the cost and time constraints. A mailed questionnaire was thus the most feasible survey method for this study. Besides money and time savings, mail questionnaires often provide greater assurance of anonymity, do not suffer from the problem of interviewer bias and allow the executives to fill in the data at their discretion.

The mailed questionnaire research method has been used by most entry mode studies due to the large number of cases required for analysis (Agarwal and Ramaswami 1992; Kim and Hwang 1992; Erramilli and Rao 1993; Woodcock et al. 1994).

However, mailed questionnaires are associated with two potential shortcomings if not properly designed and administered: a low response rate and biased information (Barwise et al. 1986). Because of these possible difficulties, this study has paid special attention to assuring a good response rate and the collection of valid data. A detailed discussion of these two issues will follow in section 5.5.

After selecting the research method, the next step is to select the data sample, and most importantly, to

identify the bank executives to whom the questionnaire will be sent.

5.3. SAMPLING

The unit of study in this piece of research is a recent (the past 10 years) foreign venture of a bank in the financial services. This study does not consider representative offices because they do not require the investment of significant resources, which is an underlying assumption in this study. The population of this study are all foreign bank ventures in the financial services established in the last ten years in various places in the world. Given that it is impossible to identify all these ventures, a sample frame representative of the population has been constructed based on the following procedure: The multinational banks listed in the Bankers' Almanac (January 1995)[1] were identified. Then the foreign ventures of these banks listed in the Almanac were compared to the ventures of the same banks listed in the Bankers' Almanac (January 1987). The banks that had established at least one new venture in the period 1987-1995 were identified. A total of 356 multinational banks were selected. Then, a different number of foreign ventures were considered for each bank based on the number of their foreign operations. For

[1] The Bankers' Almanac is the standard directory in the banking industry providing information on 4,000 banks. The international operations of a bank are provided under the headings of branches, representative offices, subsidiaries and affiliated banks.

approximately five foreign operations one new venture was accounted (maximum 5 ventures). For example, a multinational bank that has established 20 foreign ventures, according to Bankers' Almanac (January 1995), is represented in the sampling frame with four foreign ventures.

The above methodology has been employed for two reasons. The first reason is to have a good representation in the sampling frame of those banks having an extensive number of foreign operations. This objective is based on the observation that firms with large international networks tend to be more committed in international markets (Porter 1986; Prahalad and Hamel 1989).

Furthermore, recognising that sample size is the key determinant of sampling accuracy, the second reason is to guarantee an adequate number of cases. Even though a number of formulae can be employed to calculate sample size, they all require information about the population of the study which is difficult to identify or estimate. As a result, evidence from previous studies will be used to identify the sample size. For a detailed discussion on sample size estimation, the reader is referred to a marketing research textbook such as Churchill (1993).

Tan (1992) has suggested that as a general rule of thumb, a minimum of 100 questionnaires should be collected. This rule is followed in this research. Given the usable response rate of other studies of foreign entry, which is between 17% and 25%, it was expected that a minimum

response rate of 17% would be achieved. As a result, around 600 questionnaires would be delivered to get at least 100 questionnaires back.

The identification of a relatively small number of multinational banks in this study requires that the constructed sampling frame be surveyed rather than sampled. This approach will increase the chances of obtaining an adequate final sample. An additional advantage of this approach is the reduction of the possibility of sampling error.

Entry mode selection studies have adopted a similar sampling procedure in order to resolve the problems discussed above. Researchers often identify the multinationals involved in foreign entries from trade directories and collect data about more than one foreign venture of a particular multinational (Erramilli 1991; Agarwal and Ramaswami 1992; Brouthers 1995; Nitsch et al. 1996).

Based on the above procedure, the sample population was constructed which accounted for 597 new foreign ventures. Therefore, the same number of respondents who could provide data about one particular venture had to be identified.

5.4. SELECTING THE RESPONDENTS

Due to the perceptual nature of the study and its

focus on the time of the decision to enter the market, bias could be introduced in the research design because respondents could have difficulty recalling events accurately. It is, therefore, critical to identify executives who have participated in foreign entry decisions in order to collect valid data. The importance of the respondent has been recognised in previous perceptual studies as well (Kim and Hwang 1992; Agarwal and Ramaswami 1992). For example, Kim and Hwang (1992) have argued that respondents on foreign investment issues had to be senior managers.

In order to precisely identify the appropriate respondents, this study explored the issue with six bank executives. The following executives were identified as appropriate to fill the questionnaire: managers of international divisions, the general manager/executive director of a foreign venture, members of the senior management and managers in the corporate planning department. The titles identified are in agreement with the contention that executives in these positions are most knowledgeable on international investments (John 1984).

Drawing on the results of the field work study, the executives to be identified in a particular bank listed in terms of priority are: regional heads at the international division, the directors of a foreign venture if a recent venture could be identified and members of the senior management. In cases where the identified executive has not been involved in the decision to pursue a recent venture,

the executive was asked to send the questionnaire to a colleague who was familiar with a recent foreign venture.

Thus far it was decided that a mailed questionnaire would be sent to 597 senior executives working for 356 different banks. The next step was to develop a final version of the survey instrument and then administer it.

5.5. SURVEY INSTRUMENT AND DATA COLLECTION PROCEDURE

After the operationalization of factors which was driven by knowledge drawn on the literature review and experience gained from the interviews with bank executives, a considerable amount of time was dedicated to the development of the survey questionnaire.

5.5.1. *Questionnaire design - concern for good response and valid data*

A questionnaire can facilitate a good response and valid data if participants find the questionnaire interesting enough to be worth completing and easy enough to facilitate provision of accurate answers. Therefore, in addition to the research objectives of the survey (i.e. to measure factors and constructs), the questions must be scrutinised from the viewpoint of the respondent. Besides being salient to the participants, the questions must flow smoothly and in an orderly fashion, and be clear and

precise. Furthermore, the questionnaire must be short and signify serious and important research (Zikmund 1991).

Following the suggestions of the literature for good questionnaire design (see Zikmund (1991) for a comprehensive discussion), the survey instrument was developed. The questionnaire was then refined through a series of discussions with academics and managers. The following discussion presents the main attributes of the questionnaire.

The first page of the questionnaire (see Appendix A) aims to establish the respondent's familiarity with the research and improve the quality of answers given. To achieve this aim, the purpose of the research is clearly stated and the participant is asked to select the venture he/she is going to answer questions about. This is necessary, given that most of the respondents have been involved in many foreign entry decisions and that therefore they may draw their answers on experiences related to more that one foreign venture (Stopford and Wells 1972). In addition, the type of ventures to be researched were highlighted. This is because representative offices and ventures in non-financial services business areas are not relevant to this study.

The questionnaire consists of four sections.

Section 1. The venture: Contains questions about the foreign venture such as the year of establishment, the country entered, the targeted business area(s) and the

organization of the venture. By being asked for general information about the venture at the start, the respondent could find it easier to adapt to the process as he/she had to focus his/her mind on one particular venture.

The customer segment classification (question 3: "Please indicate which customer segment was the main target of this venture") was adopted from Hoschka (1993). The financial services classification (question 4: "Please indicate in which financial services area this investment was made") was taken from the OECD report (1989). Additionally, respondents were asked to identify the entry mode selected from eight different configurations adopted from Anderson and Gatignon (1986). This is the most detailed entry mode classification developed in the literature and can provide information about the different levels of equity participation. This information can be used in future research. Furthermore, following the suggestion of Anderson and Gatignon who have argued that the actual control of the parent in a joint venture will depend on the number of partners and the relative spread of the shares amongst them, respondents were additionally asked to state the actual percentage of shares owned, the share of the largest shareholder and the number of partners. This information will be used in future research on joint ventures. Furthermore, recognising the dynamic nature of entry modes (Johanson and Valhne 1977), respondents were asked to identify the desired entry mode prior to the investment and the status of the venture

today. This information will also be used in future research on the changing dynamics of entry modes.

Section 2. Respondents' motives and perceptions: Addresses the motives and perceptions of the management teams **at the time of the investment**. To emphasize the importance of answering the questions based on the management's perceptions at the time of the investment, every question started with a highlighted statement like "at the time of the investment...". This section draws information on the two constructs, desire for control and need for complementary resources as well as most of the factors discussed in Chapter 4. The section is split into ten sub-sections. The first five sections ask questions about control and resources whereas the rest are about strategic motives, host country factors, target market factors, synergies and the comparative business of the parent and venture, in that order. The placement of the sub-sections was based on two considerations to achieve a logical sequence and to have the difficult questions last (Tull and Hawkins 1990).

Section 3. Intangible resources: Gathers information about the perceived risks of transferring and maintaining intangible resources at a joint venture. This section was originally part of section 2, but the pre-test had indicated that executives had difficulty in understanding the term "intangible resources" and relating it to the

established order of questions. To make the question as explicit as possible, this group of questions is placed in a separate section and the term intangible resources is clearly explained.

Section 4. The parent bank: Following Churchill's (1993) suggestion that demographic-related questions should be placed at the end of the questionnaire, the final section gathers general information mostly about the parent bank. Information about the bank's country of origin, size and experience are collected as well as data about the performance of the venture. Performance-related information will be used in future research about the implication of entry mode selection on performance. Finally, due to the exploratory nature of this research an open-ended question was used to give the respondents the chance to comment on any issue that might have been overlooked by the research. The final question prompts the respondent to state his/her title at the time of the investment. This question ensures that the respondents are familiar with the content of the questions asked and that their answers reflect their experiences about a real event and not fictitious or hypothetical scenarios created for the sake of responding.

A seven-point LIKERT-type attitude rating scale was adopted because of its usage in such research. These scales have several advantages: ease of completion, short response time, specification of the frame of reference for the

subject, and ease to scoring and codifying responses.

Experts have suggested that the selection of the measurement scale should depend on the nature of the attitudinal objects to be measured (Tull and Hawkins 1990; Zikmund 1991). Following this suggestion, this study has adopted a seven-point numerical scale. This is because the majority of the entry mode selection studies have used a similar scale (Erramilli 1991, Kim and Hwang 1992; Agarwal and Ramaswami 1992; Brouthers 1995).

A numerical scale, like a semantic differential scale, uses bipolar ratings. Research studies have found that numerical labels for intermediate points on the scale result in more accurate answers, as respondents can better relate their answers to numbers than to space (Tull and Hawkins 1990). For a detailed discussion on the different types of scales reference can be made to a number of comprehensive market research textbooks (Tull and Hawkins 1990; Zikmund 1991; Churchill 1993).

Respondents were asked to circle the number best reflecting their answer in each question. However, recognising that not all questions could be relevant to a particular venture, the respondents were instructed to write "not applicable" (N/A) at the right margin of the questions which were not relevant.

5.5.2. *Pre-test - improving reliability and validity*

A pre-test to enhance the reliability and validity of the research was conducted before the final delivery of the questionnaire. The objective of the pre-test was to check whether respondents would have any difficulty answering the questions. In addition, the pre-test checked the comprehensiveness of the questionnaire and indicated the expected response rate.

The sample of the pre-test included 35 bank executives randomly selected from the sampling frame. The pre-test results indicated a 28% response rate. A few problems were also identified which were associated with the structure and the clarity of the instrument.

Once the amendments to problems identified by pre-testing the questionnaire had been made, the final version of the questionnaire was sent to 562 senior bank executives.

5.5.3. *Response rate achieved*

Low response rates are typical in strategic-type of research. This is due to a number of reasons. According to London and Dommeyer (1990), managers are too preoccupied with their business tasks to answer a survey; managers are reluctant to reply to a survey for fear of divulging proprietary information; some companies have policies that prohibit or limit employee participation in surveys. To

stimulate the response rates a number of techniques had to be employed. Jobber and Saunders (1989) have identified three techniques which are highly effective in stimulating response rates. Those are (i) to increase the number of contacts, (ii) to offer incentives and, (iii) to provide anonymity. Following the above suggestions a number of actions were taken.

To make the contact more effective the names of the target executives were identified from the Bankers' Almanac and a personalised covering letter (see Appendix B) was enclosed with the questionnaire signed in blue ink. The covering letter stressed the magnitude and the importance of the study. Additionally, a self-addressed envelope was enclosed to make the reply easier. The respondents were also offered a summary of the findings if they were completing the questionnaire. Furthermore, full confidentiality was promised even though respondents did not have to disclose their name or the bank's name. In those cases where a report of the findings of the study was requested, the respondent was asked to enclose his/her name and address on a return envelope which was kept separately from the questionnaires.

To increase the number of conducts, four weeks after the questionnaire was sent a reminder letter was sent to executives who had not responded (see Appendix C). A questionnaire was also enclosed. This is because respondents are likely to have gatekeepers (e.g. secretaries) who may lose the questionnaire before the

potential respondent sees it (London and Dommeyer 1990).

The data-gathering procedure has resulted in a total of 173 replies, a 30.6% response. Out of these respondents, 29 were unwilling to participate for reasons such as bank policy, the confidential nature of the information requested, and not being familiar with the questions. Out of the 144 questionnaires left, six questionnaires were unusable because of incomplete information on the main questions despite efforts to contact the respondents. Nine questionnaires referred to a venture already described by another respondent, and in these cases, the response from the most senior executive was considered in the analysis. Three questionnaires had reported on alliances with non-local partners, which is beyond the scope of this study. Finally, in two questionnaires the foreign country restricted the bank from pursuing the desired mode of entry and the cases were not included in the analysis. The total usable questionnaires were 124 or 22.1% which compares very favourably with other studies on entry modes. For example, Kim and Hwang (1992) had a usable response of 17%, whereas Agarwal and Ramaswami (1992) had a usable response of 18%.

The next section will offer a rigorous analysis of the validation of the data.

5.6. VALIDATING THE RESEARCH DESIGN

A research design is valid only when it acquires data

that truly reflects the nature of the research domain. This can be achieved by a well-designed instrument and a representative data set (Zikmund 1991). To assure the quality of the research instrument an in-depth examination is required. Emory (1980) highlighted two basic elements of good quality instrument design: (i) validity and (ii) reliability. Furthermore, to ensure that data represent the target population, the final sample must be tested for non-sampling bias and non-response bias. The following discussion will address each of the above issues.

5.6.1. *Validity*

Validity is the extent to which an instrument truly reflects the intended concepts in the research. Three types of validity need to be considered in any research design (i) content validity, (ii) concurrent validity, and (iii) construct validity (Green et al. 1988).

Content validity is concerned with "how representative an instrument is of the universe of the property or characteristic being measured" (Green et al. 1988). This implies that all aspects of the attribute being measured must be included in the instrument. An instrument can be said to possess content validity if there is general agreement amongst the experts in the field that the constituent items cover all aspects of the variables being measured.

To assure content validity, the survey instrument was developed based on a comprehensive review of the literature and a fieldwork study (for more details see section 4.4.1). Although this judgement remains subjective, one can claim that the research instrument has high content validity.

Concurrent validity (sometimes referred as criterion validity, external validity or predictive validity) considers the predictive power of the instrument. Nunnally (1967) has noted that concurrent validity is at issue when the instrument is used to estimate some form of behaviour. In this case, the perceptual and subjective nature of the questions asked could introduce significant measurement error (Churchill 1993). The most common technique of examining the concurrent validity of the instrument is by a re-test procedure using the same instrument. Two or more informants are requested to answer the same set of questions concerning the same research object. If the correlation between the two pairs of answers is significantly high, concurrent validity is assured (Nunnally 1967).

To check for concurrent validity in this research, the answers of two or more respondents on a particular venture must be compared. Since nine questionnaires were providing information about ventures already described by other executives, a comparison of the questionnaires referring to the same ventures was made following the procedure suggested by Shortell and Zajac (1990). Two questionnaires

referring to the same venture were compared across 97 scale responses. On repeating such comparison across the nine questionnaires a total of 873 (97*9) comparisons were made. Out of these comparisons, 458 responses were identical and 274 responses were within one interval difference from the response in the first questionnaire. Therefore, 732 responses or 83.8% of the total responses of two different senior executives on the same venture were within an interval or less, showing satisfactory agreement in the answers (Shortell and Zajac, 1990). The concurrent validity of the instrument design was therefore confirmed.

Construct validity is concerned with the question "of what the instrument is, in fact, measuring" (Churchill 1993). As Tull and Hawkins (1990) point out, this is the most complex form of validity - to understand the factors that underlie the obtained measurement.

To test the construct validity of the current research, the underlying structure of the data collected must be checked. Ideally, this structure should resemble the factors and constructs hypothesised in Chapter 4. The major approach to examining construct validity is through factor analysis (Churchill et al. 1974; Allison 1978; Noerager 1979). The KMO index and the Bartlett's test of sphericity of factor analysis can be calculated to explore the possible construct underneath the instrument. The resultant KMO index (0.68) and the significance of Bartlett's test ($P < 0.001$) suggest that there is a clear

construct embedded in the instrument design. In addition, the factors derived from factor analysis coincide with the hypothesised factors which indicate the high construct validity of the research instrument. A detailed discussion of factor analysis will follow in section 5.8.

5.6.2. *Reliability*

According to Carmines and Zeller (1979), reliability concerns the extent to which a measuring procedure yields the same results on repeated trials. Kerlinger (1973) has proposed some general guidelines to improve the reliability of the research instrument. They include writing the items of the measuring instruments unambiguously and providing clear and standard instructions for answering questions.

In accordance with Kerlinger's guidance, a pre-test was conducted prior to the actual questionnaire delivery to assure the reliability of the research instrument (see section 5.5.2). The pre-test greatly helped the fine-tuning of the questionnaire so that the questions were easy to answer and the logic easy to follow.

Theoretically, the most preferable way of testing the reliability of an instrument is through testing and retesting the same instrument at different time points. However, in practice this is difficult since the noise caused by the testing environment and the characteristics of the informants can distort the results of the time-based reliability tests. An alternative way is through

statistical techniques that examine the internal consistency of variables in the same data set.

Following the example of other studies (Burke 1984; Kim and Hwang 1992), the current research uses the Cronbach Alpha test to examine the internal consistency of the instrument design. The reliability test was conducted to assure the construct reliability of the fourteen factors produced by factor analysis. The Cronbach Alpha, calculated for each factor ranged from 0.59 to 0.93, suggesting that the questionnaire is reliable. For a more detailed description of the above validation procedure see section 5.8.

5.6.3 *Non-sampling bias*

The rationale behind non-sampling bias is that information obtained from one group of the population may not be valid for another group. In this research, for example, the answers of a respondent could be influenced by the origin of his/her bank due to cultural reasons. Another factor which could affect responses is the degree of familiarity of the respondent with a foreign venture of his/her bank. The following discussion will explore the above two factors.

Close examination of the data has indicated that the response rates of participants from certain countries were significantly different from the average response rate. This finding may suggest that the country of origin of the

respondents could influence response bias. This is because participants from certain countries may feel more uncomfortable with or alienated by the questionnaire than other respondents and answer the questionnaire differently. Such behaviour could be attributed to cultural and language differences.

To test for country-of-origin bias, the answers of respondents from countries that were over-represented (more than 25% response rate) in the sample and those who were under-represented (under 18% response rate) were compared across all questions. For conducting the analysis the SPSS/PC+ statistical package was employed. In fact, SPSS/PC+ has been used to perform all statistical analysis in this chapter. T-tests were employed for testing the null hypothesis that the mean of the answers across the two groups were the same. Large t-values indicate rejection of the hypothesis, and therefore one may conclude that responses are significantly different. Table 5.1 shows the results.

First, the hypothesis is tested that the means of the sum of all scale variables across the two groups are the same. The value of the t-statistic is -.71 which results in a 2-tail significance of .483, suggesting no difference in the means of the sum of all scale variables. To confirm the result, a similar test is performed across each of the variables. The results show that three variables have significantly different means across the two groups which is less than the number expected by chance (5 to 6 cases,

Table 5.1. T-test for equality of means

Respondents from over-represented countries VS respondents from under-represented countries

a. Variable: Sum of responses over all scale questions

Group	# of cases	Mean	SD	SE
Over represented	35	365.6	34.89	5.89
Under represented	24	372.0	33.01	6.73

Levene's test for equality of variance

F=.082 P=.776

t-test for equality of means

T-value= -.71 df=57 2-tail signif= .483

b. Variable: Each individual question

Questions with different means:

1. Better monitoring of international competitors

Group	n	Mean	SD	SE	t-test	d.f.	p
Over represented	37	3.21	1.53	.252	-3.03	59	.004
Under represented	24	4.45	1.61	.330			

2. Sharing investments

Group	n	Mean	SD	SE	t-test	d.f.	p
Over represented	37	3.43	1.65	.273	2.04	59	.046
Under represented	24	2.58	1.47	.300			

3. Degree of coordination exercised from head office

Group	n	Mean	SD	SE	t-test	d.f.	p
Over represented	37	4.16	1.48	.244	-2.83	59	.006
Under represented	24	5.20	1.28	.262			

assuming a random error of 5%). Furthermore, since the variables are not related in any apparent way, one can conclude that the country of origin does not produce response bias.

To further investigate the internal consistency of the sample, the responses were compared across the title of the respondents. The title of the respondents at the time of

the investment is shown in Table 5.2. All respondents were senior managers. Forty respondents were directly involved with their bank's international operations, fifty-five respondents were general managers and twelve had functional senior management positions. All these respondents could be involved in the decision-making process about foreign investments. However, seventeen respondents did not reveal

Table 5.2. Title of the respondents at the time of the investment

Title	Frequency
Chief Executive Retail	1
Company Secretary	3
Member of Executive Committee	5
Managing Director	10
Director	2
Deputy Director	2
General Manager	12
Deputy General Manager	5
Assistant General Manager	5
Senior Vice President	10
Managing Director Oversees	1
Director International	3
Director International Planning	2
General Manager International	5
Assistant General Manager International	2
Executive Vice President International	7
Head International Division	5
Head International Development	2
Senior Manager International Investment	2
Senior Regional Manager	6
International network Coordinator	2
Director International Trade	1
Head Group Treasury	1
Senior Analyst International Division	1
Director Finance and Planning	2
Director of Planning	1
Senior Manager Planning	2
Director of Control	1
Controller	1
Chief Economist	1
Senior Manager Lending	3
Chief of legal department	1
Not identified	17
Total	124

their titles. Even though the failure of these respondents to state their title could be attributed to a number of reasons, it is possible that these respondents were not senior managers and that therefore they were not familiar with foreign ventures.

To test for differences in the responses that may derive from the nature of the responsibilities of each respondent and their degree of familiarity with foreign ventures, two comparisons were conducted. First, the responses of the participants who did not identify their title have been compared with the rest of the participants. Then, the responses of the executives who were directly involved in international operations have been compared with the rest of the respondents.

Table 5.3, which shows the results of the first comparison, indicates no significant difference in the responses of participants who did not identify themselves and the rest of the respondents.

Table 5.4 shows the results of the comparison between respondents who were directly involved in international operations at the time of the investment and the rest. The testing procedure, which is the same as that employed in the previous tests, has indicated that the answers of the two groups are not significantly different.

The results of the two foregoing tests suggest that respondents are coming from a homogeneous group. Therefore, their answers are not expected to be different.

The above tests have indicated no problems with the

Table 5.3. T-test for equality of means

Respondents not identified their titles VS rest

a. Variable: Sum of responses over all scale questions

Group	# of cases	Mean	SD	SE
Not identified	17	358.5	37.01	8.99
Identified	103	371.4	37.10	3.64

Levene's test for equality of variance
F= .028 P=.868
t-test for equality of means

T-value= 1.34 df=118 2-tail signif= .184

b. Variable: Each individual question
Variables with different means:

1. Importance of overcoming barriers to rapid capture of share

Group	n	Mean	SD	SE	t-test	d.f.	p
Not identified	17	3.41	1.50	.364	-2.64	122	.009
Identified	107	4.48	1.57	.152			

2. Improving service to existing customers from home

Group	n	Mean	SD	SE	t-test	d.f.	p
Not identified	17	3.52	2.21	.536	-2.01	122	.047
Identified	107	4.64	2.11	.204			

3. Political stability

Group	n	Mean	SD	SE	t-test	d.f.	p
Not identified	17	6.11	.99	.241	2.60	122	.010
Identified	107	5.14	1.48	.143			

4. Need for adapting the products to local tastes

Group	n	Mean	SD	SE	t-test	d.f.	p
Not identified	17	3.29	1.57	.381	-2.00	122	.047
Identified	107	4.24	1.84	.179			

Table 5.4. T-test for equality of means

Respondents related to international operations VS rest

a. Variable: Sum of responses over all scale questions

Group	# of cases	Mean	SD	SE
Involved in international	40	365.5	38.71	4.30
Not involved in international	80	371.6	33.76	4.40

Levene's test for equality of variance
F= 1.095 P=.297
t-test for equality of means
T-value= .85 df=118 2-tail signif= .399

b. Variable: Each individual question

Variables with different means:

1. Stability of competitors' market share

Group	n	Mean	SD	SE	t-test	d.f.	p
Involved in international	40	3.32	1.73	.274	2.32	122	.022
Not involved in international	84	4.10	1.77	.193			

2. Experience with teaching your skills

Group	n	Mean	SD	SE	t-test	d.f.	p
Involved in international	40	5.22	1.40	.222	-2.31	122	.022
Not involved in international	84	4.53	1.61	.176			

internal consistency of data. It is reasonable, however, to argue that the exact degree of data consistency cannot precisely assessed due to the large number of respondent characteristics which can introduce bias in the answers. Nevertheless, evaluation of the data have not indicated other distinct groups besides the groups which were examined. The main concern of this study is whether the

respondents were indeed familiar with a foreign entry decision of their bank. Following the recommendation of other studies (Burke 1984; Kim and Hwang 1992) the data consistency across the title of the respondents was tested which indicated no problems.

5.6.4. *Non-response bias*

There are various reasons why people do not respond to questionnaires. They may be too busy; they may not have the necessary knowledge to answer the questionnaire; or the topic may be too confidential. Whatever the reason, the people who do not respond to a questionnaire deserve representation. After all, if they had responded, their responses might have substantially changed the overall results of the survey.

To test for non-response bias, the answers of the late respondents are compared with the answers of the rest of the participants. This test is based on the suggestion that participants who reply late or require more prodding to respond are more similar to non-respondents than to the early respondents (Leslie 1972; Armstrong and Overton 1977).

In this study, late participants were classified as the respondents who replied during the follow-up mailing. To test for differences in the answers of the two groups, t-tests are employed. First, the null hypothesis that the means of the sum of all variables across the two groups are

Table 5.5. T-test for equality of means

Late respondents VS Rest

a. Variable: Sum of responses over all scale questions

Group	# of cases	Mean	SD	SE
Rest respondents	87	371.6	44.33	6.20
Late respondents	33	368.2	31.06	3.74

Levene's test for equality of variance
F= 5.155 P=.25
t-test for equality of means
T-value= .49 df= 122 2-tail signif= .623

b. Variable: Each individual question
Variables with different means:
1. Increasing access to global funds

Group	n	Mean	SD	SE	t-test	d.f.	p
Rest respondents	90	2.97	1.87	.224	2.37	122	.019
Late respondents	34	3.76	1.78	.242			

2. Likelihood of restrictions on the ownership of the venture

Group	n	Mean	SD	SE	t-test	d.f.	p
Rest respondents	90	2.25	1.47	.176	2.25	122	.026
Late respondents	34	2.92	1.84	.251			

3. Danger of future increase in competition

Group	n	Mean	SD	SE	t-test	d.f.	p
Rest respondents	90	5.02	1.38	.165	-2.16	122	.033
Late respondents	34	4.50	1.31	.179			

4. Degree of product customization required

Group	n	Mean	SD	SE	t-test	d.f.	p
Rest respondents	90	4.95	1.30	.156	-2.13	122	.035
Late respondents	34	4.46	1.25	.171			

the same is tested. Table 5.5 indicates that the value of the t-statistic is .49 which results in a 2-tail significance of .62. This result suggests that the means of the sum of all variables are not significantly different. To confirm the above result, a similar test was performed

across each of the variables. The results indicate that four variables have significant differences in their mean. However, since the variables are not related in any apparent way and given that by chance 5-6 variables could have different means, it can be concluded that there is no difference in the answers of late respondents and the rest of the respondents. As a result, it is reasonable to expect that non-respondents would have given answers similar to the answers of the respondents.

5.6.5. *Evaluation of the research design*

The selection of the mailed questionnaire method for collecting the data has exposed the study to two major risks; of not getting a good response rate and of collecting invalid data. As a result, the main concern through out the whole research methodology was to ensure that the potential problems specified above would not hinder the research design.

The concern associated with the response rate was relaxed at an early stage after 124 useful questionnaires or a 22.1% response rate was achieved. This rate compares very favourably with other studies on entry mode selection which have achieved response rates as low as 17% and number of cases as low as 97. Despite the good response rate, following Comrey's (1973) assertion that 100 cases are poor for factor analysis, one may evaluate the 124 cases as relatively low for factor analysis. However, it should be

noted that such suggestions are based on experience rather than empirical or theoretical evidence. A simulation study by Acito and Anderson (1986), for example, has found that increasing the number of cases from 100 to 250 had a relatively minor effect on the results. In addition, Kline (1994) has argued that 100 cases are sufficient for factor analysis. In fact he discussed a study in which factor analysis was applied to 103 cases (Kline 1994:141). Furthermore, entry mode studies have derived factors using less than 100 cases (Kim and Hwang 1992; Agarwal and Ramaswami 1992).

The most widely adopted criterion for sampling adequacy, the KMO index, is 0.68 which is considered adequate for factor analysis (Stewart 1981). In addition, the sample meets Lawley's and Maxwell's (1971) benchmark which requires the sample to contain at least 51 more cases than the number of variables submitted to factor analysis. On this criterion, the 69 variables submitted require 120 cases, which is fewer than the cases available in this study. This criterion has been employed by a number of studies for determining whether factor analysis was appropriate (Agarwal 1986; Cavusgil and Zou 1994; Papadakis 1993). Some other studies have not even met this criterion (Burke 1984; Tan 1992). For example, Burke (1984) has reduced 46 variables to 5 factors using 86 cases.

A thorough evaluation of the validity of the research design has indicated no major problems. This is attributed

to the meticulous process adopted throughout the whole design. Areas which could introduce problems like the questionnaire design or the respondent selection were carefully designed and pre-tested.

The main confirmation of validity is the extraction of factors which resemble the factors hypothesised in Chapter 4. However, factors are based on the perceptions of the respondents and they may have a subjective element in their structure. Unfortunately, bias could be introduced from a number of sources. Even though tests for non-response bias and non-sampling bias have not indicated any bias problems, one cannot track or control all sources of bias which can affect the quality of data.

For example, a limitation of the research results from the employment of a post hoc research design. The respondents were requested to give information about an entry mode decision in which they were involved. As Emory (1980) argues, "most respondents have difficulty accurately reporting events from their past unless the events were either outstanding or recent." It is thus possible that information gathered through this approach might be distorted owing to limited human recall. In addition, Stern (1979) contends that memories can be distorted to fit the view that makes a person most comfortable at present. In the case of this research, for example, the degree of success of a foreign venture to date may have change what executives thought about the control desired or the need for resources at the time of the investment. Additionally,

the response to factors like country risk or competition could be influenced by developments after the decision to enter.

Although many precautionary measures, such as pre-test, clear answer instructions, explanation of the research purpose and careful selection of the respondents, were taken to ensure the accuracy of the research, not all possible sources of error can be ruled out. Nevertheless, these limitations are embedded in all post hoc type research and do not apply exclusively to this research.

Despite the inherent weaknesses of the research design selected, the collected data are not prone to major research biases. The final sample is therefore considered adequate to test the entry mode selection model proposed in Chapter 4. However, before data are submitted to further analysis, the main characteristics of the final sample are discussed in order to establish familiarity with the type of banks and ventures contained in the sample.

5.7. PROFILE OF THE FINAL SAMPLE

The characteristics of the final sample are summarized in Tables 5.6 to 5.9. The size of parent banks measured by their capital base is shown in Table 5.6. Capital ranges from US$34 million to US$19 billion. Banks, represented by fifty seven of the respondents or 45.9% (it should be noted that a bank may be represented more than once), have a

Table 5.6. Size of the respondents' banks

Capital($Million)	# of respondents	Percentage (%)
< 201	19	15.3
201-500	19	15.3
501-1000	19	15.3
1001-2000	17	13.7
2001-3000	11	8.9
3001-4000	10	8.1
4001-6000	11	8.9
6001-10000	11	8.9
10001 and up	7	5.6
	124	100.0

capital base up to US$1 billion, indicating that the range of size is quite balanced. However, only 19 banks have a capital base below US$200 million, which may suggest that the capital base can constrain the ability of the bank to internationalize. Overall, the banks represented in the sample are quite large compared to average bank size.

The degree of internationalization of the respondents' banks at the time of the investment, measured by the number of countries in which the bank had a presence, is shown in Table 5.7. Foreign representation ranges from 0 to 90 countries. The spread is quite uniform, indicating that the sample represents parent banks with different levels of international exposure.

The entry mode achieved at the time of the investment is shown in Table 5.8. Greenfield investments represent 41.9% of the sample, majority and full acquisitions 26.6% and partnerships and participation 31.5%. The majority of the entries are greenfield investments and acquisitions,

Table 5.7. Degree of internationalization of the respondents' banks

# of foreign countries being present	# of respondents	Percentage %
< 5	32	25.8
5-9	22	17.7
10-19	24	19.4
20-39	21	16.9
40 and up	25	20.2
	124	100.0

Table 5.8. Entry mode at the time of the investment

Mode of entry at time of investment	# of ventures	Percentage %
Greenfield	52	41.9
Majority Partner	5	4.0
50% Partner	8	6.5
Minority Partner	18	14.5
Full Acquisition	22	17.7
Majority Acquisition	11	8.9
50% Acquisition	4	3.2
Minority Acquisition	4	3.2
	124	100.0

which may indicate the importance of control in the banking industry.

Table 5.9 shows a cross tabulation of the region of origin of the parent banks and the region of the ventures' location. The representation of each region in the final sample reflects the contribution of these regions in the sample population. Most of the new ventures are located in Europe (69.3%), reflecting the changes that took place in the last few years. The European Union attracted most of

Table 5.9. Investment patterns

HOME COUNTRY	HOST COUNTRY								
	EC	Non-EC	NAmer	CSAmer	ME	SEAsia	FE	Africa	TOT
EC	30	22	6	4	0	1	5	2	70
Non-EC (Europe)	5	2	0	0	0	0	0	0	7
North America	3	5	1	1	0	0	1	0	11
Central-South America	2	0	0	1	0	1	0	0	4
Middle East	2	1	2	0	0	0	0	0	5
South-East Asia	4	0	0	0	0	0	2	0	6
Far East	6	1	2	1	0	2	2	0	14
Africa	2	0	0	0	0	0	1	2	5
Australia	1	0	0	0	1	0	0	0	2
TOTAL	55	31	11	7	1	4	11	4	124

attracted foreign banks as economic activity and privatisation started taking place. Most of the ventures, however, originate within Europe which may reflect the positioning strategies of the European banks in a uniting Europe. North America and particularly the United States attracted foreign banks as interstate banking directives are changing. Outward investment from the U.S. is moderate, however, due to the focus of the banks in the U.S. market. Emerging markets on the Pacific Rim such as China and Taiwan, also attracted foreign investment as economic growth has created opportunities for international banks.

Thus far the research methodology adopted in this study has been discussed. Discussion has focused on the research issues which could affect the quality of the data collected. The sampling approach and the selection of the respondents were discussed as well as the design and refinement of the survey instrument and the data collection

procedure.

The study is concerned with the executives' response to this research and the quality of the data received. The satisfactory response obtained is attributed to the seriousness of the study which was portrayed throughout the entire process. However, the most important contribution to the response rate was the offer made to respondents of a summary of the results of the study. This argument is based on the fact that every respondent has requested a summary of the results. The data validity achieved is due to the careful selection of the respondents and the thorough questionnaire design and testing.

The banks represented in the final sample are all large ones with some degree of international experience. These characteristics suggest that small size and lack of appropriate experience are significant prohibitors of bank internationalization. In addition, most foreign entries are directed in Europe and originate from other European countries, which indicates the strategic positioning objectives of European banks in light of the economic and political changes in Europe.

In the next section, data will be submitted to the first stage of analysis in an attempt to simplify the structure of the data by producing factors common to the variables being measured. These factors can then be employed to test the entry mode selection model.

Exploratory factor analysis has been selected because

the proposed model suggests a new approach to entry mode selection which is based on a combination of diverse theoretical and empirical findings. This is the first time a hierarchical approach to entry mode selection has been adopted in an empirical study.

Confirmatory factor analysis, the alternative approach, is suggested when models are supported by strong theory. This is because a confirmatory model, like LISREL, will converge only if the observed correlations fit the specified model (Fornell and Bookstein 1982; Johansson and Yip 1994).

5.8. FACTOR ANALYSIS

The thorough evaluation of the quality of the final sample has indicated that the data can be used for further analysis and hypothesis testing. The next step then, is to identify the constructs underlying the complete set of variables in the hope that these constructs will coincide with the factors operationalized in Chapter 4. Such an exercise will empirically produce the entities of the entry mode selection model, confirm the construct validity of the data set and provide reassurance as to the reliability of the research design. To achieve this task, factor analysis is employed.

Factor analysis is a multivariate statistical technique that is concerned with defining new factor variates as linear transformations of the original

correlated variables (Overall and Klett 1972). Its use is appropriate when studying interrelationships among variables in an effort to find a new set of variables, fewer in number than the original variables, which can describe the original data (Stewart 1981).

Factor analysis has been developed by psychologists to assist in the reduction of complexity associated particularly with attitudinal studies. The advance of computing which made the application of factor analysis easy, contributed to the adoption of the technique by other fields of research including marketing (Churchill 1979). Factor analysis has been applied in entry mode studies after Anderson and Gatignon (1986) urged researchers to directly measure the perceptions of the executives involved in foreign market entry decisions, rather than using a single variable to operationalize complex constructs (Agarwal and Ramaswami 1992; Kim and Hwang 1992; Erramilli and Rao 1993; Woodcock et al. 1994).

Factor analysis is a broad subject. To keep the discussion concise, this study will focus on issues which are relevant to the analysis to be pursued. The reader however, can refer to a number of texts covering the topic. At an introductory level Kline (1994) and Kim and Mueller (1978) provide a comprehensive and easy to follow overview of the subject. At a more advanced level, Rummel (1970) provides a detailed application of factor analysis, while Harman (1976) explains the theoretical background of factor analysis.

Factor analysis proceeds in four steps: (1) examining the suitability of data for factor analysis; (2) determining the method for extracting the factors and the number of factors necessary to represent the data; (3) rotating and transforming the factors to make them more interpretable; and (4) computing the score of each factor for each case (Norusis 1992). These steps will be discussed in detail along with several other important issues which need special attention when using factor analysis. These issues include decisions on the cutting point of factor loadings, the naming of factors and the reliability of factors.

5.8.1 *Are the data suitable for factor analysis?*

Before the data are submitted to factor analysis, their suitability for factor analysis must be tested. Norusis (1992) has suggested two tests, checking the correlation matrix of the variables and measuring the sampling adequacy of data.

Following Norusis' recommendation, first a correlation matrix of the scale variables is computed. If the correlations between the variables are small, it is unlikely that common factors will be identified and therefore, the data are not suitable for factor analysis. A close examination of the correlation matrix has revealed that about 70% of the variables have at least one significant correlation. Significant correlations range

from 0.30 to 0.75. To confirm the above observation, the Barlett's test of sphericity is calculated. This test assesses the hypothesis that the correlation matrix is an identity matrix, that is, that the off-diagonal terms of the matrix are all zero. Application of Barlett's test on the sample data has resulted in a chi-square statistic equal to 7415 which is significant at 0.0 level. This suggests that the matrix is not diagonal. Therefore, there are significant correlations between variables, which in turn suggests that the data can be reduced through factor analysis.

The second test proposed by Norusis is an assessment of the sampling adequacy of the data. The Kaiser-Meyer-Olkin (KMO) measure is an index that compares the magnitude of the observed correlation coefficients with the magnitude of the partial correlation coefficients. Small values on the KMO measure mean that the simple correlation coefficient between variables is small and the partial correlation coefficient is large which indicates that correlations between pairs of variables could not be explained by the other variables. In such a case factor analysis would not be appropriate (Norusis 1992). Kaiser (1974), considers KMO indexes below 0.5 as unacceptable.

Applying the KMO test to the present data a 0.68 index was calculated which indicates acceptable sampling adequacy. Factor analysis can therefore be employed.

Both the examination of the correlation matrix and the

sampling adequacy test have indicated beyond a doubt that the data set is appropriate for factor analysis. The next step is to identify the appropriate method for factor extraction and factor rotation.

5.8.2 *Which method of factor extraction and factor rotation is most appropriate?*

There are several methods for extracting factors, such as principal component analysis (PCA), common factor (CF), principal-axis factoring and unweighed least squares (Child 1990). The most frequent method encountered in marketing research literature is the Principal Component Analysis (Acito and Anderson 1986). Despite the broad adoption of PCA, there is not much evidence to support its superiority over other methods. The little empirical research which compares the performance of these techniques claims that all methods yield similar results particularly when the number of variables is large (Kline 1994). Lindeman et al. (1980), comparing PCA to CF, another popular technique, has suggested that even though their results do not differ significantly, PCA is to be preferred because it allows factor scores to be computed directly rather than their being estimated. This approach improves the validity of the results.

The few entry mode studies that employed factor analysis have utilised PCA (Agarwal and Ramaswami 1992; Kim and Hwang 1992). Since there is no evidence to suggest that

any other technique suits the sample data better, the PCA method of factor extraction is adopted.

Once the factors are extracted, factors must be rotated to yield meaningful groupings of variables. The choice of rotation is bounded between two classes, orthogonal rotation and oblique rotation. Orthogonal rotation keeps the axes at right angles and therefore assumes independence between the factors. Oblique rotation, on the other hand, allows the axes to display some inter-correlation. Orthogonal rotation is used more often in marketing literature because the factors are easier to interpret since they have the same pattern and structure matrix (Churchill 1979). In addition, the problem of multicollinearity can be avoided when the factors are used for further analysis. On the other hand, orthogonal rotation may lose some information as correlations between factors could provide additional insight into the structure of the object space.

This study regards the entry mode selection as a two stage mechanism. As such, it is concerned with linkages across stages but is not concerned with linkages within stages (for details see section 4.4). For example, the study does not examine if the perception of host country risk is related to the perception of market attractiveness. There is thus no reason to employ the oblique rotation.

Rummel (1970) has suggested that both methods should be applied to data in order to assess the most appropriate

method in terms of interpretability and parsimony. Since implementation of this suggestion is an easy task, a factor analysis was performed utilising both procedures. Both analysis have yielded twenty almost identical initial factors. Furthermore, no major correlations between the factors extracted by the oblique method were observed. Since the results are not very different, the orthogonal rotation will be employed to avoid collinearity problems in further analysis.

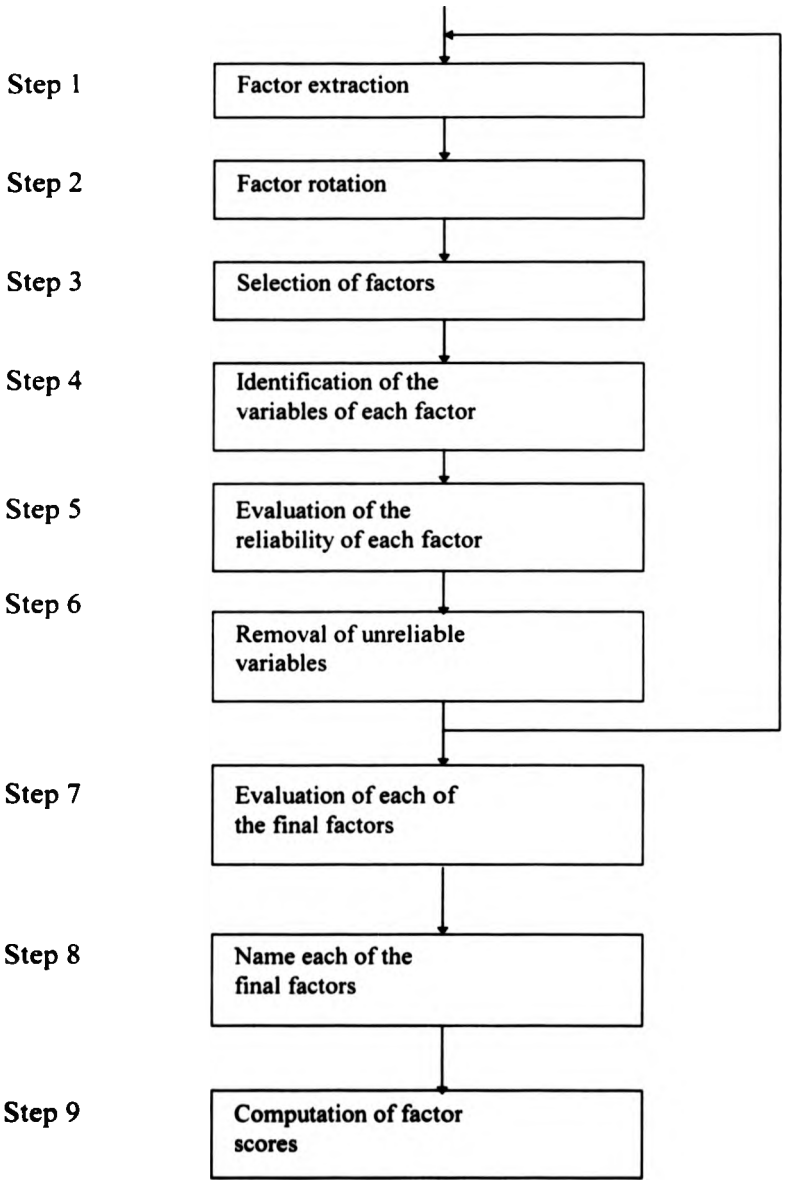
A number of orthogonal rotation algorithms exist. SPSS/PC+ provides three different methods; Varimax, Quartimax and Equimax. Varimax is the most commonly used, mainly because it produces more interpretable factors and more invariant results (Kaiser 1958, Norusis 1992) and it will therefore, employed in this study.

5.8.3 *A procedure for construct development*

Once the factor extraction and rotation methods has been identified, a procedure must be employed to determine the appropriate factors which represent the data set. Following Churchill's construct development paradigm, the procedure developed is an iterative process between factor and reliability analysis.

Figure 5.2 shows the steps of this process. The procedure first proceeds with factor extraction and rotation. Factors are selected based on their eigenvalue (lambda). The criterion lambda>1 has been used extensively

FIGURE 5.2. A PROCEDURE FOR CONSTRUCT DEVELOPMENT



in marketing literature (Acito and Anderson, 1986) and seems to give results consistent with the researchers' expectations (Kim and Mueller, 1978). Then, the variables comprised in each factor are determined. A variable is included in a factor if after the rotation its factor loading is greater than +/-0.30. This is the generally accepted benchmark for variable inclusion (Acito and Anderson 1986). Nevertheless, the final factors are expected to have loadings greater than +/-0.50 because otherwise the estimates of factor scores will be highly inexact (Nunnally 1967). This due to the fact that factors will explain less than 25% (the square of the factor loading) of the variance of the variables with loadings below 0.5. In addition, accepting variables with high factor loadings can ensure that factors can be interpreted more easily (Kim and Mueller 1978).

The next step is to evaluate the internal consistency of each factor. To achieve that, Cronbach's alpha is calculated. This coefficient is the most commonly used reliability test because it provides a unique conservative estimate of reliability (Carmines and Zeller 1979; Peter 1979). Unlike Cronbach's alpha coefficient, the split-halves and the retest methods are not recommended. The former method produces correlations which differ depending on how the total number of items is divided, whereas in the latter method the experience of the first testing usually influences responses in the second testing (Carmines and

Zeller 1979).

Cronbach's alpha can be interpreted as the correlation between a linear scale formed from the variables under examination and all other possible scales containing the same number of variables which could be constructed from a hypothetical universe of variables that measuring the characteristic of interest (Norusis 1992).

Cronbach's alpha is positively related both to the number of variables in the scale and the correlations between the variables. Accordingly, the criterion for keeping a variable in the scale is its correlation with the scale. Variables with low correlation should be removed from the scale because they improve the alpha coefficient.

In this study, the correlation of each variable with the linear scale formed from the factor variables is calculated using the reliability procedure of SPSS/PC+. Following Nunnally's (1967) suggestion, variables with correlation below 0.30 are eliminated from the factor. Once the unreliable variables are eliminated, the procedure is repeated until all variables in each factor contribute to the reliability of the factor.

When a final set of factors is formed, the appropriateness of each factor is assessed. First, the factor reliability is examined. Following Nunnally's (1967) suggestion, factors with Cronbach's alpha less than 0.5 are discarded. Then, the meaningfulness of each factor is evaluated. Factors which are difficult to interpret are not

considered in further analysis (Kline 1994). Finally, the ability of the selected factors to explain some degree of the variance of the variables present in the final analysis is assessed. As a rule of thumb, the final set of factors together should account for at least 60% of the total variance of all variables (Suen and Ary 1989). This is because if the factors explain only a small portion of the variance, they cannot be considered as useful substitutes of the original variables.

Finally, the adopted factors are named based on the variables which have the highest loadings on the factor. The variables considered are the ones with loadings above +/-0.50 (Nunnally 1967). The last step in the procedure, the development of factor scales, will be discussed in section 5.9.

In summary, the data are suitable for factor analysis and therefore the construct development procedure will be applied to the data using the SPSS/PC+ statistical package. The results of the factor analysis are discussed below.

5.8.4 *The results of factor analysis*

Once the procedural logistics of factor analysis have been determined, the next step is to identify the data which will be submitted to factor analysis. Given that the derived factors from the analysis will be used to test the two-stage model discussed in Chapter 4, factor analysis

cannot be applied to the whole data sample. This is because the orthogonal factor analysis selected will produce independent factors which will not be useful for testing the research questions of the study. To avoid this problem, the factor procedure will be applied to two different data sets. One set is the scale variables related to country, market and firm-specific factors, and another set is the scale variables related to control and resources (for details see Figure 4.2).

Application of the procedure on the scale variables, excluding control and resource-related variables, initially produced 20 factors. The first iteration of the construct development procedure, discussed above, has reduced the factors to 17. Then it took another five iterations to end up with 12 stable factors. In order to compare the initial and final sets of factors and justify the reduction process, the initial set of factors is shown in Table 5.10, while the final set is shown in Table 5.11.

While 69 variables were initially submitted to factor analysis, 41 variables have remained at the final stage. The final factors are very similar to the initial factors which have high eigen values. The variables that were removed from the analysis are mostly ones that formed unstable factors i.e. factors with few variables and eigen values close to one. Even though discussing the reliability tests may prove cumbersome, it is worth mentioning that the correlations of variables in unstable factors with their factor scale were below .20. Such correlations do not

Table 5.10. Initial results of factor analysis

Variable	Factor Loadings	
Business practices	.881	
Legal system	.866	
National culture	.813	FACTOR 1
Economic system	.797	
Political system	.764	
Barriers created by language differences	.613	
Expected benefits from efficient account management	.843	
Expected benefits from global asset liability management	.838	
Expected benefits from reducing earnings variability	.802	
Expected benefits from sharing investments	.772	FACTOR 2
Expected benefits from sharing commercial intelligence	.731	
Expected benefits from intrabank fund transfers	.711	
Expected benefits from sharing know-how	.499	
Importance of better monitoring international competitors	.781	
Importance of getting closer to key financial institutions	.738	FACTOR 3
Importance of increasing access to global funds	.565	
Importance of learning new skills essential for the bank	.562	
Possibility of restrictions on the repatriation of income	.814	
Possibility of price controls	.779	
Likelihood of government restrictions on the ownership and/or operations of the venture	.752	FACTOR 4
Market share of state owned competitors	.592	
Economic instability	.879	
Political instability	.837	FACTOR 5
Instability of currency	.828	
Need for advertising support to the products	.771	
Need for adapting the products to local tastes	.715	FACTOR 6
Need for a wide product line	.672	
Access deposits in local currency	.542	
Importance of capitalizing on the bank's knowledge of the target market	.699	
Importance of taking advantage of the bank's reputation in the target market	.699	FACTOR 7
Importance of capitalizing on the bank's marketing skills	.667	
Similarity of the venture's core products to the banks core products	.847	
Similarity of the venture's core customers to the banks core customers	.814	FACTOR 8
Building on the bank's competitive advantage	.464	
Prospects for long-term profits	.787	
Long-term market growth	.779	FACTOR 9
Establish a strategic outpost for future expansion	.488	
Intensity of competition	.809	FACTOR 10
Danger of future increase in competition	.769	

Variable	Factor Loadings	
Initial profit margins	.725	
Short-term market growth	.616	FACTOR 11
Total market size	.525	
A local opportunity	.487	
Importance of exploiting economies of scale	.798	
Importance of exploiting potential economies of scope	.638	FACTOR 12
Lower operating costs	.502	
Experience with teaching your skills	.701	
Ease of maintaining customer service	.472	
Co-ordination exercised from head office	.451	FACTOR 13
Management skills committed by all parties	.408	
Concentration of share into a few competitors	.373	
Ease with which potential affiliates/partners might benefit unfairly from your bank's intangible resources	.786	
Ease with which your bank's intangible resources could be misappropriated or dissipated	.746	FACTOR 14
Ease with which your bank's skills could be taught or transferred	.593	
Following the moves of direct competitors	.729	
Retaliating to a competitor's entry	.600	FACTOR 15
Stability of a competitors market share	.513	
Expanding on an existing alliance	.600	
Share costs and risks of market entry	.533	FACTOR 16
Experience in other foreign markets	.721	
Experience in doing business in the host country	.472	FACTOR 17
Attacking international competitors	.435	
Degree of product customization	.766	
Total capital invested by all parties	.365	FACTOR 18
Favourable regulatory/taxation environment	.805	
Bypassing host country regulation	.309	FACTOR 19
Supporting the bank's global strategy	.706	
Clients from home country	.453	FACTOR 20

Table 5.11. The final factors resulted from the analysis

Variable	Factor Loadings			
	Factor 1	Factor 2	Factor 3	Factor 4
Business practices	.853			
Political system	.821			
National culture	.815			
Economic system	.776			
Legal system	.751			
Barriers created by language differences	.559			
Expected benefits from global asset liability management		.740		
Expected benefits from sharing investments		.731		
Expected benefits from efficient account management		.699		
Expected benefits from intrabank fund transfers		.694		
Expected benefits from sharing commercial intelligence		.627		
Expected benefits from reducing earnings variability		.560		
Economic instability			.827	
Political instability			.826	
Instability of currency			.757	
Possibility of restrictions on the repatriation of income				.846
Possibility of price controls				.782
Likelihood of government restrictions on the ownership and/or operations of the venture				.747
Eigenvalue	5.97	5.22	2.75	2.58
% of variance	14.9	13.1	6.9	6.5
Alpha coefficient	.879	.812	.805	.870
Suggested name	Sociocultural Distance	Synergy	Country Instability	Risk of Restrictions

Variable	Factor Loadings			
	Factor 5	Factor 6	Factor 7	Factor 8
Importance of getting closer to key financial institutions	.782			
Importance of better monitoring international competitors	.766			
Importance of learning new skills essential for the bank	.687			
Importance of increasing access to global funds	.560			
Need for advertising support to the products		.810		
Need for a wide product line		.788		
Need for adapting the products to local tastes		.747		
Similarity of the venture's core products to the banks core products			.857	
Similarity of the venture's core customers to the banks core customers			.854	
Initial profit margins				.771
Short-term market growth				.632
Total market size				.599
Eigenvalue	2.13	1.94	1.49	1.48
% of variance	5.3	4.9	3.7	3.7
Alpha coefficient	.724	.750	.838	.655
Suggested name	Location Advantage	Market Responsiveness	Diversification	Market Attractiveness

Variable	Factor Loadings			
	Factor 9	Factor 10	Factor 11	Factor 12
Importance of taking advantage of the bank's reputation in the target market	.775			
Importance of capitalizing on the bank's knowledge of the target market	.764			
Importance of capitalizing on the bank's marketing skills	.726			
Ease with which potential affiliates/partners might benefit unfairly from your bank's intangible resources		.762		
Ease with which your bank's skills could be taught or transferred		.735		
Ease with which your bank's intangible resources could be misappropriated or dissipated		.726		
Danger of future increase in competition			.849	
Intensity of competition			.808	
Stability of a competitors market share			.784	
Importance of exploiting potential economies of scope				.788
Importance of exploiting economies of scale				.721
Eigenvalue	1.37	1.32	1.24	1.17
% of variance	3.4	3.3	3.1	2.9
Alpha coefficient	.688	.641	.748	.590
Suggested name	Competitive Advantage	Transaction Costs	Competition	Economies

satisfy the .30 minimum criterion suggested in the literature. A variable that does not contribute to the reliability of its factor can also be identified from its factor loading which represents the variable's correlation with its factor. A variable which has a small loading compared to the loadings of the other variables in the same factor cannot contribute to the reliability of the factor and should be removed. For example, the last variable in factor 8 has a loading of .464 whereas the rest variables have loadings above .80. This loading indicates that this variable may not contribute to the factor's stability.

Close examination of Table 5.11 indicates that the final factors explain 71.7% of the variance, which is much higher than 60%, the minimum level suggested in the literature. Therefore the final factors can explain the original data. In addition, all factors are reliable. Cronbach's alpha range from .59 to .88, which is higher than the .50 benchmark suggested by Nunnally (1967). Furthermore, the factor loadings are above +/-0.50, the criterion established by the same author, thus strengthening confidence in the resulting factors. Naming the factors has not been a difficult task because the final factors resemble the factors hypothesised in Chapter 4. The name given to each factor, its eigen value, the percentage of variance explained and its Cronbach's alpha coefficient are shown at the foot of Table 5.11.

The following discussion will evaluate each factor in contrast with the respective factor hypothesised in Chapter

4. To help the reader follow the discussion, the final factors are shown diagrammatically (see Figure 5.3).

Factor 1 incorporates the six variables hypothesised to measure "sociocultural distance" and is therefore named accordingly. This main factor accounts for 14.9% of the variance. Furthermore, this factor is reliable at 88%.

The second factor confirms the existence of "synergies", as it captures six out of the eight variables hypothesised to measure synergy. The factor accounts for 13.1% of the variance and is reliable at 81%. The exclusion of the variables "sharing know-how" and "degree of coordination" should be attributed to random error as no other reason could be identified.

Factor 3 and factor 4 are associated with country risk. Factor 3 captures the variables associated with country instability, whereas factor 4 incorporates the variables associated with government restrictions. These two factors cover two distinct dimensions of country risk (Root 1987) and therefore, they should be treated as two independent factors. To verify the distinct nature of each factor, Kim and Mueller (1978) have suggested two tests; first, examining the correlation matrix of the variables involved, and then checking the relationship of each factor with other related factors to assure that they do not capture the same phenomenon. Adopting Kim and Mueller's suggestion, the correlation matrix obtained has shown low correlations between variables which are not in the same

FIGURE 5.3. THE FINAL FACTORS

Similarity of national culture Barriers developed by language Similarity of economic system Similarity of legal system Similarity of political system Similarity of business practices	SOCIOCULTURAL DISTANCE	Factor 1
Sharing investments Sharing commercial intelligence Efficient account management Global asset-liability management Efficient interbank transfers Reducing earnings variabilty	SYNERGIES	Factor 2
Political instability Economic instability Instability of currency	COUNTRY INSTABILITY	Factor 3
Restrictions on the ownership Price controls Restrictions on the repatriation of income	RISK OF RESTRICTIONS	Factor 4
Get closer to key financial institutions Increase access to global funds Learn new skills essential for the bank Monitor international competitors	LOCATION ADVANTAGE	Factor 5
Wide product line Adapting the product to local tastes Advertising support to the products	MARKET RESPONSIVENESS	Factor 6
Venture's core products compared to the parent's Venture's core customers compared to the parent's	DIVERSIFICATION	Factor 7
Total market size Short-term market growth Initial profit margins	MARKET ATTRACTIVENESS	Factor 8
Bank's reputation in the target market Bank's knowledge of the target market Bank's marketing skills	COMPETITIVE ADVANTAGE	Factor 9
Skills could be taught Intangible resources could be misappropriated Affiliates/partners might benefit unfairly	TRANSACTION COSTS	Factor 10
Intensity of competition Danger for future increase in competition Stability of a competitor's market share	COMPETITION	Factor 11
Economies of scale Economies of scope	ECONOMIES	Factor 12

factor. This is indicative of two different dimensions. In addition, multinomial logit analysis has indicated that the two factors are related differently to entry modes, which suggests their different nature (for more details see Table 6.7).

Factor 3 is named "country instability" and is reliable at 80% and factor 4 is named "risk of restrictions" and is reliable at 87%. Given the close association of the two factors with country risk, both factors are anticipated to affect the bank's desire for control. Both "country instability" and "risk of restrictions" should be negatively related to control.

Factor 5 incorporates four out of the ten variables hypothesised to measure location advantage and is reliable at 72%. Close examination of the variables has indicated that they reflect strategic roles associated with the configuration of the foreign venture (Porter 1986; Ohmae 1989). The location variables proposed by research on internationalization of banking have been dropped from the analysis. This result suggests that the changes in the banking industry discussed previously (see section 3.2.1) have motivated banks to invest on their international networks, rather than searching for local opportunities. Given the location nature of the variables, the factor is named "location advantage". The factor is anticipated to have a positive effect on desire for control (for a detailed discussion on location advantage see section 4.4.1.4.1).

The sixth factor is reliable at 75% and it covers the variables anticipated to form "market responsiveness". Similarly, factor 7 incorporates the variables hypothesised to form "diversification". Both factors are named accordingly.

In the eighth factor three variables load highly. These variables are three out of the five variables associated with market attractiveness and the factor is thus named "market attractiveness". The variables constituting the factor measure the size and the short-term growth and profits of the target market. The two variables measuring long-term growth and profits have been dropped from the analysis. The short-term orientation of managers has been recognised by a number of studies (Biggadike 1979; Cavusgil 1984; Buckley et al. 1992; Hofstede 1990). Biggadike (1979) has argued that firms which pursue new investments encounter significant problems at the start-up period. Managers are therefore concerned with the performance of the venture during the first years of the investment. Firm performance is highly related to market potential and therefore the short-term opportunities are more important to the managers. Buckley et al. (1992) have attributed the managers' short-term orientation to the short-term evaluation of managers' performance.

Factor 9 incorporates three variables associated with "competitive advantage". These are the bank's reputation in the target market, its knowledge of the target market and its marketing skills. The other two variables included in

"competitive advantage", economies of scale and scope, have formed factor 12. Examination of the correlation matrix of these five variables has indicated low correlations between variables which are not in the same factor. In addition, the latter two factors are related quite differently with entry modes (for more details see Table 6.7).

The above two tests demonstrate that factor 9 and factor 12 measure different dimensions and therefore, both are useful in further analysis. Factor 9 acknowledges the existence of proprietary assets which traditionally have been regarded as a source of competitive advantage and therefore, factor 9 will keep the name "competitive advantage" (Teece 1986; Hall 1992). Factor 12 represents the bank's desire to exploit the potential for economies resulting in a cost advantage over its competitors (Cooke 1988). Factor 12, which does not have an intangible nature and therefore, differs from factor 9, is named "economies". Both factors are anticipated to have a positive association with desire for control because they provide the bank with competitive advantage (see section 4.4.1.4.1 for a detailed discussion).

Factor 10 incorporates three variables which measure transaction costs. Both transaction cost dimensions, namely the risk of resource transfer and the risk of resource dissipation, are covered by this factor. Therefore, factor 10 is named "transaction costs".

Finally, the three variables that load highly on factor 11 are related to competition in the target market.

The contributor variables to this factor reflect both present and future rivalry in the market. Therefore, factor 11 is named "competition".

Application of the factor procedure on variables related to control and resources has produced three factors at the first iteration. After the elimination of two variables, the second iteration has resulted in three stable and reliable factors which are shown in Table 5.12.

Factors 1 and 3 encapsulate the variables hypothesised to form "desire for control" whereas, factor 2 encapsulates the variables hypothesised to form "need for complementary resources".

In order to test whether factor 1 and 3 are different, the tests proposed by Kim and Mueller, discussed previously, were applied to the factors. The correlation matrix of all the control-related variables has indicated that all variables are correlated at .001 level. Additionally, examination of the effects of the two factors on the selection of entry modes has indicated that both factors contribute to the entry mode selection in very similar way. In fact, both factors can differentiate greenfield investments and acquisitions from joint ventures at 0.001 level of significance. The above tests suggest that both factors measure the same object.

Research on control has argued that firms are concerned with protection of their intangible resources, with resolving conflicts and with carrying out strategies

Table 5.12. Initial factors related to control and resources

Variable	Factor Loadings		
	Factor 1	Factor 2	Factor 3
Control prepared to forego in re-investment of earnings	.871		
Control prepared to forego in capital expenditure	.843		
Control prepared to forego in dividends policy	.819		
Control prepared to forego in management selection	.764		
Control prepared to forego in risk management	.700		
Difficulty that the lack of an established branch network could pose on the rapid access of market share		.786	
Difficulty that the lack of critical mass could pose on the rapid access of market share		.783	
Difficulty that the lack of a strong local image could pose on the rapid access of market share		.768	
Difficulty that the lack of an established customer base could pose on the rapid access of market share		.766	
Control prepared to forego in marketing			.859
Control prepared to forego in account relationships			.832
Control prepared to forego in operations			.813
Control prepared to forego in information technology			.678
Desired level of control			.646
Eigenvalue	6.47	3.07	1.37
% of variance explained	40.4%	19.2%	8.6%
Alpha Coefficient	90.3	81.5	80.1

efficiently (Anderson and Gatignon 1986; Geringer and Hebert 1989; Kim and Hwang 1992). Control over all the critical functions of the bank is necessary to ensure that managers' concerns are met. The two control-related factors suggest a dichotomy among the important functions of a bank, which, however, is not supported by any previous

arguments or findings. Therefore the factors are not expected to represent two distinct dimensions. The next issue that must be addressed is whether one of the factors should be discarded or whether they should be combined (Kim and Mueller 1978).

Even though both approaches are anticipated to yield similar factor scores since the variables are highly correlated, combining the variables was considered to be more appropriate. This is because factor analysis on the whole set of scale variables has produced one control-related factor which covers all variables hypothesised to form "desire for control" (for details see Appendix D). Additionally, using a "combined" factor can facilitate the comparison of results in further analysis. In order to combine the control-related factors the variables of the stable factors (see Table 5.12) were submitted to factor analysis. This time, however, the SPSS/PC+ algorithm was forced to produce two factors. The results are shown in Table 5.13. The factor analysis has produced two stable factors explaining 72.8% of the total variance.

Factor 1 includes all control-related variables and is reliable at 93%. The factor's reliability is higher than the reliability of any of the control-related factors produced previously. This finding suggests that the combining of the two factors was a good idea. The factor is named "desire for control".

Table 5.13. Final factors related to control and resources

Variable	Factor Loadings	
	Factor 1	Factor 2
Control prepared to forego in management selection	.882	
Control prepared to forego in account relationships	.845	
Control prepared to forego in marketing	.829	
Control prepared to forego in re-investment of earnings	.785	
Control prepared to forego in capital expenditure	.756	
Desired level of control	.732	
Control prepared to forego in risk management	.724	
Control prepared to forego in operations	.720	
Control prepared to forego in information technology	.635	
Control prepared to forego in dividends policy	.634	
Difficulty that the lack of an established branch network could pose on the rapid access of market share		.801
Difficulty that the lack of a strong local image could pose on the rapid access of market share		.797
Difficulty that the lack of critical mass could pose on the rapid access of market share		.785
Difficulty that the lack of an established customer base could pose on the rapid access of market share		.768
Eigenvalue	6.31	2.90
% of variance explained	59.1%	13.7%
Alpha coefficient	.928	.815
Suggested name	Desire for control	Need for complimentary resources

Factor 2 incorporates the resource-related variables and is reliable at 81.5% The factor is named "need for complementary resources".

In summary, factor analysis has produced 14 factors which incorporate 55 variables. Figure 5.4 shows the modified entry mode selection model, which is not very different from the hypothesised model. Two extra factors have been produced because two of the original factors have broken into two dimensions. The new factors are retained in the model because they measure distinct dimensions of the original factors.

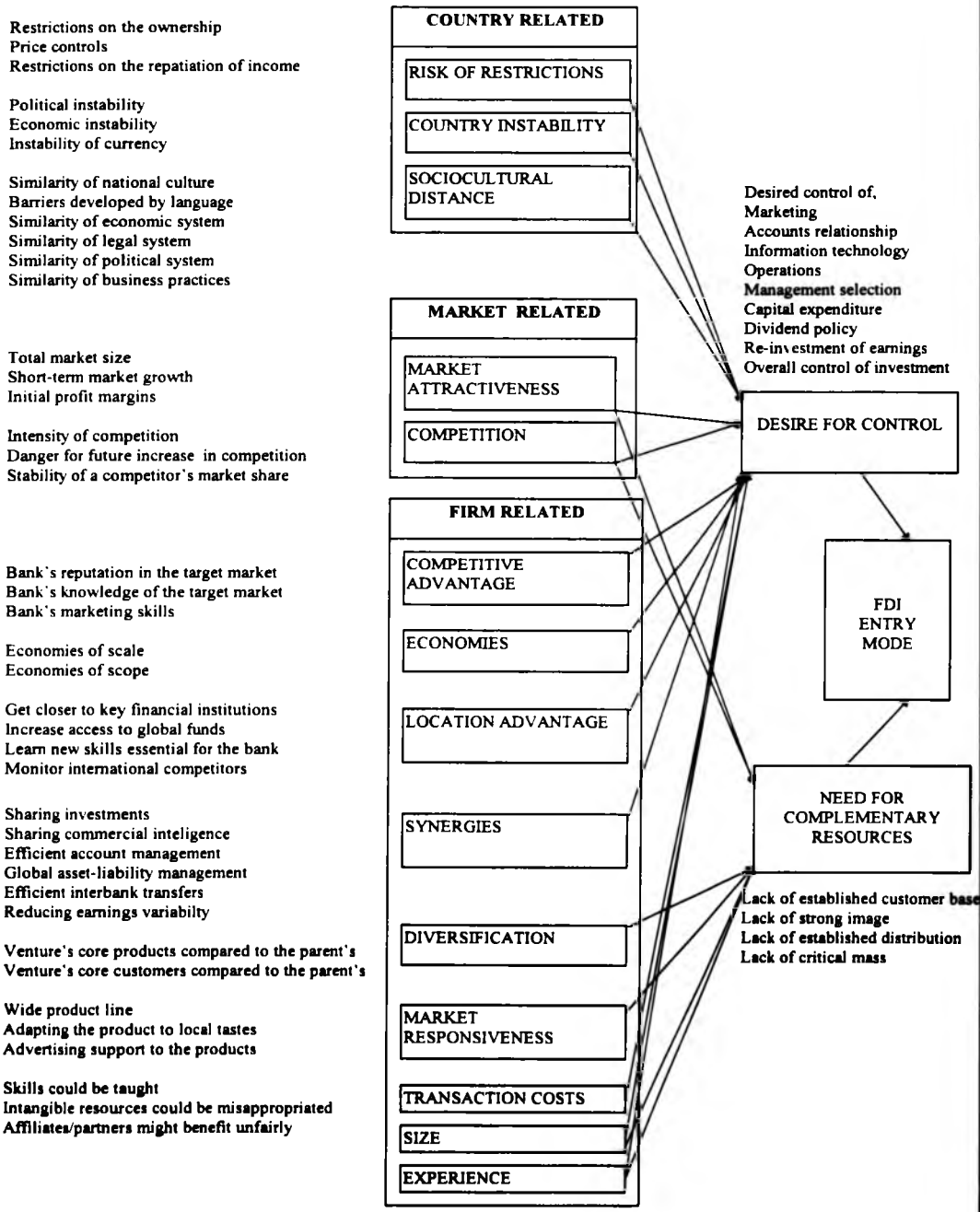
Most of the derived factors are reliable above 70%. In addition, the factors explain more than 70% of the total variance of the original data. These results indicate that the factors are stable and represent the original data well.

Overall, the factor analysis has validated the entities of the original model and the data collection procedure. Therefore, one should be confident in using the derived factors to test the research model. However, before we do this, factor scores will be produced which can represent the factors in the subsequent analysis.

5.9. COMPUTING FACTOR SCORES

Since the final factors derived will be used for further analysis, factor scores must be produced. Factor

FIGURE 5.4. THE VALIDATED ENTRY MODE SELECTION MODEL



scores are composite variables defined as weighted combinations of the original variables composing the factor (Overall and Klett 1972). The factor scores can be used in subsequent analyses to represent the values of the factors.

There are at least three major approaches towards extracting factor scores (Lehmann 1989):

i) Pick one variable to represent the factor: this representative variable must have a high loading on the factor and should be well measured and understood.

ii) Build an index based on the major variables in each factor: this index can be a simple sum or a weighted combination of the big loading variables.

iii) Use the factor scores produced by factor analysis.

The first method is the easiest. However, it ignores other important variables constituting the factor and therefore the factor may not be well represented by the score.

The index-based method changes the contribution of variables to the scale and as a result, modifies the correlations between the scale and the variables. Consequently, this method cannot maintain the orthogonality of factors and can cause collinearity problems in further analysis.

The use of factor scores, rather than the factor-based scales discussed above, has two main advantages: scores are automatically computed by the factor procedure and further, no significant correlations between the factors are introduced. For these two reasons factor scores are

adopted.

SPSS/PC+ can produce factor scores using three different algorithms; the regression method, Bartlett's method and the Anderson-Rubin method. Simulations have indicated that the scales produced by the three algorithms are highly correlated (Kim and Mueller 1978). However, when principal component analysis is used for extracting the factors, all three methods result in the same factor scores (Norusis 1992). In this study, the regression method is arbitrarily selected.

The regression method maximizes the correlation between the factor and the scale. The factor acts as the independent variable and the variables as the predictors. For a detailed discussion on regression factor scoring see Kim and Mueller (1978:66).

The factor analysis discussed above have produced scores for each of the final factors. The scores from each factor analysis are uncorrelated with mean zero and standard deviation one. By avoiding correlations between the factors in each stage of the model (see Figure 5.4), collinearity problems can be evaded when the model is tested.

However, two factors, "size" and "experience", have been measured directly and have therefore not been submitted to factor analysis. "Size" has been measured by the capital of the bank and the number of its employees worldwide, and "experience" by the number of years the bank

has been in the foreign country prior to the investment (for details see section 4.4.1.4.3). These two factors have been normalised in order to obtain comparable statistics when the model is tested. However, since size and experience have been developed independently from the other factors, their correlations with the other factors are examined. The correlation matrix (see Table 5.14) shows no major correlations and therefore, collinearity problems are not anticipated.

5.10. SUMMARY

This chapter has discussed the methodology of collecting data from bank executives for validating the final sample and for extracting factors representative of the original data which can be used for testing the entry mode selection model.

A mailed questionnaire was sent to a select group of senior executives. Mailed questionnaires are associated with low response rates and biased data. Therefore, the main concern of the methodology employed was to avoid the above problems.

A relatively satisfactory response rate was achieved (22.1%) which is attributed to the seriousness portrayed throughout the entire process and the incentive offered to respondents. Despite the good response rate, the 124 cases collected had to be carefully evaluated for sampling adequacy before submitted to factor analysis. Fortunately,

Table 5.14. Correlations of "size" and "experience" with other factors

	Size	Experience
Country Instability	-.05	.13
Risk of Restrictions	.01	-.03
Sociocultural Distance	.00	-.21
Market Attractiveness	.13	.15
Competition	.12	.22
Competitive Advantage	.08	.05
Economies	.00	.12
Location Advantage	-.26	.08
Synergies	-.03	.10
Diversification	.10	-.17
Market Responsiveness	-.01	-.14
Transaction Costs	-.10	-.05
Size	1.00	.10

the KMO index, the most widely adopted criterion for sampling adequacy, has indicated that sampling adequacy was not a problem. This is attributed to the strong correlations between variables in the original data.

The potential for bias was also evaluated by testing for non-sampling and non-response bias. The answers of the respondents were tested across the title and the country of origin. Additionally, the responses of late participants were scrutinised on the assumption that late respondents are similar to non-respondents. Even though, this assumption is reasonable, nobody can guarantee that the data are free of non-response bias. Similarly, given that respondents differ in a large number of characteristics, the possibility for non-sampling bias cannot be totally excluded. The post hoc nature of the research design could also introduce bias into the data due to limited human recall or distorted information.

Evaluation of the validity of the research design has indicated no problems. This is attributed to the careful process adopted throughout the research design, such as the

careful design and testing of the questionnaire and the careful selection of the respondents. The above measures additionally ensure to a degree that no significant bias was introduced in the final sample.

The main confirmation of validity is the extraction of factors which resemble the factors hypothesised in Chapter 4. To achieve this validation, a construct development procedure was adopted which has produced reliable and comprehensible factors that represent the original data.

The construct development procedure has adopted the principle component factor extraction method and the Varimax rotation, the most popular algorithms for factor analysis in marketing research. In addition, the procedure has employed the Cronbach's alpha to determine the reliability of the factors. The final factors explain more than 70% of the variance of the original variables. The names given to these factors coincide with the names given to the hypothetical factors developed in Chapter 4. This is because each factor includes variables which reflect the dimensions defined to represent the hypothetical factors.

The verification of the construct validity of the data, i.e. understanding the factors that underlie the obtained data, justifies the use of the derived factors for testing the entry mode selection model. Replacing the hypothetical factors with the validated factors produced from the analysis has resulted in the model shown in Figure 5.4. To test this model, factor scores have been produced which represent the variables in each factor.

The next step is to identify the statistical methodology which can test the linkages hypothesised in Chapter 4. The final outcome should be an empirical model which can explain the selection of foreign direct investment entry routes. The above analysis will be discussed in the next chapter.

CHAPTER 6: TESTING THE ENTRY MODE SELECTION MODEL

6.1. INTRODUCTION

Chapter 5 discussed the data collection, methodology and reduced the data into meaningful factors, thus validating the research design and preparing the groundwork for testing the two-stage entry mode framework proposed in Chapter 4.

The objectives of this chapter are first, to demonstrate that the constructs "desire for control" and "need for complementary resources" determine the entry mode selection, and then to identify the firm and environment-specific factors that influence these constructs.

Testing the model through multinomial logit and regression analysis, has indicated that the bank's desire for control and need for complementary resources determine the selection of entry modes. However, there is no evidence to suggest that the above motives are functions of country, market and firm-specific factors. The last finding does not support the model, and as a result a new model must be developed.

Given that research on entry mode selection has consistently supported a framework where factors affect entry modes directly (this model is called single-stage model), a model of this type has been developed and tested. Results have indicated that a single-stage model can explain the entry mode selection better than the two-stage

framework.

The following discussion will address the above findings. Section 6.2 identifies the statistical analysis appropriate for testing the entry mode framework. In section 6.3, data are analyzed to determine the effects of "desire for control" and "need for complementary resources" on the choice of entry modes. In section 6.4, the relationships of the venture-related factors with the managers' desire for control and need for resource are tested. The results are discussed and a single-stage model is proposed. In section 6.5, new hypotheses are developed, which directly link factors to entry modes. Furthermore, the new model is tested and discussed. Finally, section 6.6 summarizes the results and concludes the chapter.

6.2. SELECTING THE APPROPRIATE STATISTICAL ANALYSIS

Figure 6.1 shows the model to be tested and Table 6.1 indicates the hypotheses that establish the linkages in this model.

Hypothesis 1 links the two constructs, "desire for control" and "need for complementary resources", with the selection among three distinct non-ordered direct investment entry modes. This study will test hypothesis 1, as well as the effects of the individual constructs on the managers' choice of entry mode (hypotheses 1a and 1b).

Multinomial logit modelling (MNL) is the most appropriate technique to test hypothesis 1. This is because

FIGURE 6.1. THE ENTRY MODE SELECTION MODEL TO BE TESTED

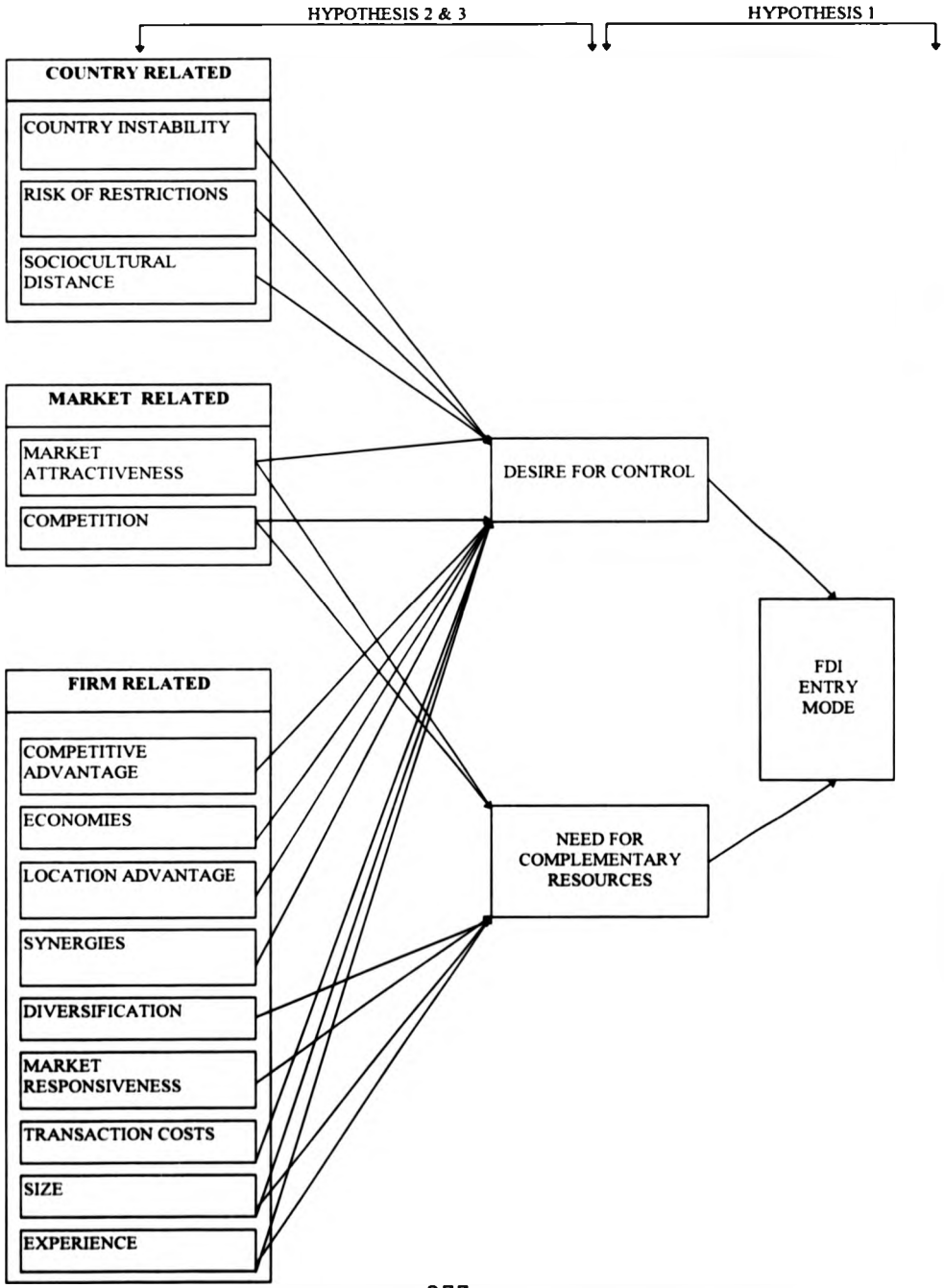


Table 6.1. The hypotheses supporting the model

MODEL HYPOTHESES

H1: Desire for control and need for complimentary resources determine the selection of an FDI entry mode

H2: Desire for control is a function of: country instability, risk of restrictions, sociocultural distance, market attractiveness, competition, competitive advantage, economies, local advantage, synergies, transaction costs, size and experience.

H3: Need for complementary resources is a function of: market attractiveness, competition, diversification, market responsiveness size and experience.

INDIVIDUAL FACTOR HYPOTHESES

Hypothesis	Construct	Mode of Entry		
		Greenfield	Acquisition	Joint Venture
H1a	Desire for control	+	+	
H1b	Need for complementary resources		+	+

Hypothesis	Factor	Construct	
		Desire for Control	Need for Complementary Resources
H2a1	Country instability	-	
H2a2	Risk of restrictions	-	
H2b	Sociocultural distance	-	
H2c, H3a	Market attractiveness	+	+
H2d, H3b	Competition	-	+
H2e1	Competitive advantage	+	
H2e2	Economies	+	
H2f	Location advantage	+	
H2g	Synergies	+	
H3b	Diversification		+
H3c	Market responsiveness		+
H2i	Transaction costs	+	
H2j, H3d	Size	+	-
H2k, H3e	Experience	+	-

the dependent variable (the entry mode) is categorical (Demaris 1992). In addition, the significance of hypothesis 1 can be evaluated from the maximum likelihood estimates and the classification accuracy of the model. Furthermore, the individual construct hypotheses can be evaluated from the asymptotically t-statistics which are calculated for each independent variable.

An alternative to multinomial logit is discriminant analysis. However, discriminant analysis assumes that the populations of comparison are multivariate normal with equal covariance matrices. This assumption is often violated. Additionally, comparisons of discriminant function estimators with maximum likelihood estimators have indicated that the former are inferior (Press and Wilson 1978). On the basis of this, multinomial logit is considered to be more appropriate.

Due to the above reasons, multinomial logit analysis has been used in almost every study of entry mode selection (Wilson 1980; Yip 1982; Kogut and Singh 1988; Kim and Hwang 1992; Erramilli and Rao 1993; Hennart and Park 1993).

Hypotheses 2 and 3 link the firm and environment-specific factors with "desire for control" and "need for complementary resources". To test the above hypothesis multiple regression analysis is employed. Regression analysis is used when both dependent and independent variables are continuous. Furthermore, this method is used to analyze data collected in sample surveys where variables are not controlled (Kleinbaum and Cupper 1978).

The variables under examination are factor scores which are standardised continuous variables (Kim and Mueller 1978), and which are therefore suitable for regression analysis. In fact, a number of studies in the area of management have employed regression to analyze relationships among factor scores (Koberg 1987; Cavusgil and Zou 1994; Murray et al. 1994). Additionally, multiple regression can assess the above hypotheses by determining the significance of the model and, the effects of each individual factor on the two constructs.

Analysis of covariance can also be used to test hypotheses 2 and 3, as both methods are special cases of the so-called general linear model. However, given that analysis of covariance treats one or more independent variables as categorical variables, some information is lost when variables are transformed from interval to ordinal (Wildt and Ahtola 1978).

To investigate the hypotheses discussed above, a different type of analysis is required, and therefore hypotheses will be tested separately. In the next section hypothesis 1 will be discussed.

6.3. TESTING HYPOTHESIS 1

Hypothesis 1 speculates about the main thesis of this study, namely, the argument that managers choose the mode of entry based on their control and resources-related motives. This study is concerned with investigating the

collective effect of the managers' motives, and the individual effects of each motive on entry modes. The hypothesis is tested through multinomial logit analysis which is carried out using the LIMDEP (Econometric Software Inc) software (see Greene 1992).

6.3.1. *Presentation and analysis of results, - can control and resource motives differentiate among entry modes?*

Before the results of the analysis are presented and discussed, the multinomial logit model will be discussed briefly in the framework of the data to be analyzed.

Multinomial logit analysis (MNL) models the effects of the explanatory constructs "desire for control" and "need for complementary resources" on the probability that each of the three entry modes would be chosen. MNL allows the explanatory variables (continuous or discrete) to affect the differential odds of choosing one entry mode relative to another. Therefore the coefficient vector is specific to the alternative mode (Judge et al. 1985). The parameters can be estimated by setting the coefficient vector of one alternative entry mode to zero. The option with a utility of zero serves as a base of reference. The parameters are estimated by maximizing a log likelihood function using the Newton-Raphson iteration procedure (Schmidt and Strauss 1975).

Table 6.2 shows the results of multinomial Logit. Maximum likelihood estimated coefficients are reported and

their asymptotically distributed t-statistics are displayed in parenthesis. The estimated coefficients in section 1 should be interpreted as representing a marginal utility of choosing a greenfield investment or an acquisition relative to a joint venture. A positive coefficient under greenfield investment or acquisition indicates that the greater the value of the construct, the greater is the likelihood of choosing this mode over joint venture, and vice versa for negative coefficients. Similarly, section 2 shows the estimated coefficient of acquisition which represents the marginal utility of choosing an acquisition relative to a greenfield investment.

The explanatory power of the model is indicated by the model chi-square statistic which shows the improvement of the model due to the independent variables. Thus the model chi-square tests the null hypothesis that the coefficients for all variables in the model, except the constant, are zero. Large chi-square values and small p-values indicate good fit. The chi-square of the model with two degrees of freedom is 67.2 which results in a significance level of 0.000.

The good fit of the model is further confirmed by the good classification rate of the model. Table 6.3 shows the frequencies of the actual and predicted outcomes. 85 cases were classified correctly (sum of the diagonals), whereas only 50 cases would be expected by chance. To calculate the improvement of the case classification, the Tau statistic is employed (Klecka 1980). For the model under examination,

Table 6.2. Parameter Estimates of the Multinomial Logit Model

	Constant	Desire for Control	Need for complementary resources
Section 1: Comparing joint ventures to greenfield and acquisitions			
Joint Venture	0.00	0.00	0.00
Greenfield	0.44	1.52	-0.76
	(1.46)	(4.91)[a]	(-2.55)[a]
Acquisition	0.21	1.34	0.13
	(0.69)	(4.45)[a]	(0.48)
Section 2: Comparing greenfield to acquisitions			
Greenfield	0.00	0.00	0.00
Acquisition	-0.22	-0.18	0.90
	(-0.83)	(-0.46)	(3.43)[a]

Model Chi-Squared: 67.2
d.f.: 2
p-value: 0.00
n: 124

a: $p<.01$

Table 6.3. Classification Table

Actual	Predicted			
	Greenfield	Acquisition	Joint venture	Total
Greenfield	[40]	5	7	52
Acquisition	13	[15]	5	33
Joint venture	6	3	[30]	39
Total	59	23	42	124

Tau statistic is .534 indicating a 53.4% improvement in the case classification.

The high significance of the model and its good classification rate confirm hypothesis 1. Therefore, managers select entry modes based on their desire for control and the need for complementary resources. This result supports the main thesis of this study; managers have difficulty in dealing with the large number of variables affecting an entry mode selection and as a result, they simplify the task by asking two fundamental questions: "what control do we really need?" and "what complementary resources do we need to enter the market successfully?" Even though the literature has not studied the direct effect of these two constructs on entry mode selection, theoretical arguments have suggested that control and resource motives determine the choice of entry mode (for a detailed discussion see section 3.3.1.3).

The model classifies correctly 77% of greenfield investments, 77% of joint ventures and 45% of acquisitions. 72% of the misclassified acquisition cases are classified as greenfield investments. This result indicates the "closeness" of acquisitions and greenfield investments in managers' perceptions. Since the common characteristic of these modes is the high control they provide, the result suggests that managers place greater importance on control in the decision-making process. This finding is in line with previous arguments which have emphasised the importance of control. For example, Anderson and Gatignon

(1986) have argued that control is the single most important determinant of the choice of entry modes.

When greenfield investment and acquisition are compared with joint venture, both coefficients of "desire for control" are positive and significant at .01 level. Consequently, the higher the bank's desire for control, the more likely is the bank to choose a greenfield investment or acquisition rather than a joint venture. Hypothesis 1a therefore is confirmed. Additionally, when acquisition is compared to greenfield investment, the coefficient of "desire for control" is insignificant, indicating that control cannot differentiate between these two entry modes.

Even though the direct effect of desire for control on the selection of entry modes has not been investigated empirically, entry mode research has suggested that joint ventures provide the least control among the three FDI entry modes due to shared ownership (Anderson and Gatignon 1986; Kim and Hwang 1992). Furthermore, studies have considered greenfield investments and acquisitions as providers of similar levels of control (Gomes-Casseres 1989; Geringer and Hebert 1989). Expanding on this view, Geringer and Hebert (1989) have argued that acquisitions and greenfield investments are substitute entry modes.

"Need for complementary resources" has a negative coefficient significant at .01 level when greenfield investment is compared with joint venture, and a significant positive coefficient when acquisition is compared to greenfield investment. These findings suggest

that the greater the bank's need for complementary resources, the more likely the bank is to choose joint venture or acquisition rather than greenfield investment. The above results support hypothesis 1b.

Entrants through greenfield investments must develop internally or transfer all resources required to effectively compete in the foreign market. Due to this characteristic, research has regarded greenfield entry modes as distinctly different from acquisitions and joint ventures (Stopford and Wells 1972; Hennart and Park 1993; Woodcock et al. 1994).

The coefficient of "need for complementary resources" when acquisition is compared to joint venture is insignificant, showing that the two entry modes are perceived to offer similar levels of complementary resources. This result is in line with previous research findings. For example, Buckley et al. (1992) have found that European banks have pursued cross-border entries through acquisitions or joint ventures because they needed significant resources to bypass barriers to entry.

The validity of the suggested parsimonious model for selecting FDI entry modes is confirmed. This model shows that choice of entry modes is based on managers' desire for control and need for complementary resources. This simple and powerful tool can be employed by managers who make decisions about entries in foreign markets. So far, managers were offered quite complex models drawing on

myriads of factors related to countries, markets and the firm.

The model works as follows: the control-related construct determines the selection of acquisitions and greenfield investments in preference to joint ventures. Furthermore, the resource-related construct determines the selection of acquisitions and joint ventures in preference to greenfield investments. Combination of the two constructs results in the identification of one distinct entry mode.

Given that control and resource motives can determine the entry mode selection, the next step is to identify the factors that determine these motives. The next section investigates these relationships by testing hypotheses 2 and 3.

6.4. TESTING HYPOTHESES 2 AND 3

Hypotheses 2 and 3 propose that the managers' desire for control and need for complementary resources are determined by firm and environment-related factors. To test these relationships two regression models will be developed. One model will test hypothesis 2 by establishing a linear relationship between "desire for control" (the dependent variable) and the venture-related factors (independent variables). Similarly, another model will test hypothesis 3 by regressing "need for complementary resources" against the same factors.

This section will first discuss the results of regression analysis, and will then propose a single-stage entry mode framework. This is because the results do not support hypotheses 2 and 3.

6.4.1. *Presentation and analysis of results - what determines the managers' motives for control and resources?*

Discussion will begin with a brief review of multiple regression. Then, the results of regression analysis will be presented and discussed. SPSS/PC+ is employed for all the regression analysis.

Multiple regression is used to analyze the relationship between several independent variables and a dependent continuous variable by fitting the research model to the data using the ordinary least squares estimates method. To facilitate the interpretation of the above relationship, regression analysis produces several statistics. R^2 indicates the variance of the dependent variable explained by the independent variables taken together. F-statistic is used to assess the significance of the model. F-statistic tests the null hypothesis that all coefficients of the independent variables are equal to zero. A large F-statistic indicates rejection of the hypothesis. The p-value shows the significance of the model. For the model under examination, significance is set to 0.05. This is the standard benchmark in business research (Churchill 1993).

The contribution of individual variables to the model are shown by Beta, the standardized coefficient of each variable. The T-statistic tests the null hypothesis that the coefficient of a particular independent variable is zero. Large t-values indicate rejection of the hypothesis. Rejection of the hypothesis is set at a significance level of 10% (two-tail test) (Caves and Mehra 1986; Zejan 1990).

Regression analysis makes a number of assumptions: random errors are independent of each other and have a normal probability distribution with mean equal to zero and constant variance; the dependent variable is a linear function of the independent variables.

Before evaluating the results of regression analysis a number of tests were run to assure that the assumptions of multiple regression were not violated. These included obtaining normal probability plots, scatter plots and casewise plots. For a detailed discussion of these tests see Weinsberg (1980). All diagnostic tests have indicated that regression assumptions are not violated, and therefore that hypotheses 2 and 3 can be tested through regression analysis. The following discussion will present and evaluate the results of regression.

The results of multiple regression analysis on "desire for control" are shown in Table 6.4. The model F-statistic is 1.72 which is significant at a 0.06 level. This value is above the 0.05 benchmark, and it therefore suggests that the model is not significant. Additionally, R^2 is 0.18 which

Table 6.4. Regression Analysis on "desire for control"

Variable	Estimated Coefficient	t-value	p-value
Constant	0.03	0.29	0.77
Country Instability	-0.03	-0.33	0.74
Risk of Restrictions	-0.06	-0.69	0.49
Sociocultural Distance	0.20	2.33	**0.02**[b]
Market Attractiveness	-0.10	-1.14	0.25
Competition	-0.01	-0.13	0.89
Competitive Advantage	0.13	1.53	0.12
Economies	0.05	0.61	0.54
Location Advantage	0.02	0.30	0.75
Synergies	0.08	0.93	0.35
Diversification	-0.23	-2.58	**0.01**[b]
Market Responsiveness	0.07	0.82	0.41
Transaction Costs	0.12	1.45	0.14
Size	0.11	1.09	0.27
Experience	-0.04	-0.61	0.53

R^2: 0.18
F-value: 1.72
d.f.: 14
p-value: 0.06

a:p<.01 b:p<.05

clearly indicates that the variance of the dependent variable cannot be explained by the independent variables. The above results do not provide support for hypothesis 2. Therefore, the managers' desire for control cannot be determined by the firm and environment-specific factors.

Similar results are also suggested by the regression model on "need for complementary resources" (see Table 6.5). The overall model is not significant and R^2 is 0.22, which indicates that the variance of the dependent variable can not be explained adequately by the firm and environment-specific factors[1]. Therefore, hypothesis 3, which postulates that the managers' need for complementary resources is a result of the evaluation of country, market and firm factors, cannot be accepted.

[1] Non-linear relationships were also tested, however, non-significant results were found.

Table 6.5. Regression Analysis on "need for complementary resources"

Variable	Estimated Coefficient	t-value	p-value
Constant	-0.06	-0.74	0.45
Country Instability	0.03	0.49	0.62
Risk of Restrictions	-0.01	-0.23	0.81
Sociocultural Distance	0.01	0.12	0.90
Market Attractiveness	0.01	0.14	0.88
Competition	0.08	1.00	0.31
Competitive Advantage	-0.15	-1.62	0.11
Economies	-0.04	-0.61	0.53
Location Advantage	-0.07	-0.89	0.37
Synergies	-0.17	-2.12	**0.03**[b]
Diversification	0.04	0.50	0.61
Market Responsiveness	0.39	4.95	**0.00**[a]
Transaction Costs	0.10	1.25	0.22
Size	-0.16	-1.65	0.10
Experience	0.19	1.57	0.11

R^2: 0.22
F-value: 2.14
d.f.: 14
p-value: 0.05

a:p<.01 b:p<.05 c:p<.1

Given the above results, the question which must be answered is "what determines the managers' desire for control and need for complementary resources?".

A thorough review of the literature has identified a number of factors, related to the host country, the target market and the firm, which can determine the managers' desire for control and need for resources. These factors are evaluated during the decision to enter the foreign market and are related to the bank's objective of balancing market opportunities and strategic priorities with the risks of entering a foreign market. The themes employed by entry mode research to explain the effects of these factors on managers' motives, which are transaction costs, barriers to entry, coordination/configuration and the process model, have also been exhausted. It is therefore, very unlikely that managers evaluate additional factors before making the

entry decision, or associate these factors with control and need for resource motives in a way which has not been captured by the themes.

The above argument, in the context of the regression results, suggests that "desire for control" and "need for complementary resources" are not determined after the evaluation of the firm and environment-related factors, but rather that, they exist before the evaluation of these factors. This suggestion is in line with evidence that managers have a general preference for some level of control and need for resources which is a result of the importance of control and complementary resources for success in foreign markets (Stopford and Wells 1972; Wilson 1980; Root 1987). Root (1987) argued that managers' preferences for control and resources are driven by previous experiences. For example, Hoschka (1993), discussing Citibank's international expansion strategies, argued that Citibank had a clear preference for complete control of its foreign ventures. This is because previous shared-control ventures of Citibank ended in failure. This failure has been attributed to obstacles in executing its strategies efficiently.

Indeed, in banking, synergies, competitive and location advantages are so important in achieving bank strategic motives, that some banks develop preference for control despite the context of each specific entry. Apart from Citibank, Hoschka (1993) listed a number of banks who have strong preferences for control, e.g. Deutsche Bank and

Barclays Bank.

Similarly, the high barriers to enter foreign markets, due to strong local and international competition and high switching costs, have influenced some banks to develop perceptions of the resources required to enter these markets. For example, a Commerzbank executive argued that acquiring local know-how is very important for his bank when it enters foreign markets (Hoschka 1993).

The preference for control and resources are sometimes so strong that organizations develop control and resource policies to ensure consistent decision making. Stopford and Wells (1972), investigating managers' choice of entry mode, have identified cases where managers' decisions were driven by the policies of their firms. However, these policies are not rigid. Buckley et al. (1992) have found that even though banks had foreign entry policies, they were flexible about their choices, given that each entry had certain individual characteristics. Hoschka (1993), discussing Nat-West's entry strategies, has argued that despite Nat-West's policies as to absolute control, it does not reject the consideration of other entry strategies.

The majority of the banks in the sample have extensive experience with foreign market entries. The regression results suggest, therefore, that most of the banks examined have developed a priory desire for some level of control and resources due to corporate policies and previous experiences (Stopford and Wells 1972; Root 1987; Hoschka 1993). Consequently, these motives are evaluated

concurrently with firm and environment-specific factors and a final decision is made with respect to the most efficient mode of entry.

Drawing on this argument, the proposed framework is a single-stage model rather than a two-stage model. The single-stage model suggests that factors are linked directly to entry modes. For example, banks pursuing a diversification strategy should prefer an entry mode such as acquisition over the other entry modes. This approach has been adopted by most entry mode empirical studies (Wilson 1980; Yip 1982; Kogut and Singh 1988; Kim and Hwang 1992; Agarwal and Ramaswami 1992; Erramilli and Rao 1993).

In summary, the two-stage model is partially valid. The managers' motives for control and resources can determine the selection of direct investment entry modes (this model for the purpose of this study will be called the control and resource-based model). However, rejection of hypotheses 2 and 3, suggests that these motives reflect managers' general preferences, and therefore the explanatory power of the parsimonious control and resource-based model does not capture factors specific to the venture under investigation. Consequently, it is anticipated that a single-stage framework that evaluates concurrently managers' fixed preferences for control and resources and the rest of the factors is a better model of entry mode selection. The next section will develop, test and discuss the single-stage entry model.

6.5. TESTING A SINGLE-STAGE ENTRY MODE SELECTION MODEL

The objective of this section is to identify an appropriate model for entry mode selection in banking. The foregoing discussion suggests that this model is a single-stage framework. Comparing this model with the control and resource-based model developed after hypothesis 1 will indicate whether firm and environment-specific factors contribute to the choice of entry modes.

However, before the model is tested, it is discussed on a conceptual basis and new hypotheses linking factors to entry modes are developed.

6.5.1. *A single-stage model - evaluating the effects of factors and constructs simultaneously*

Research on entry mode selection has consistently argued that managers link the evaluation of host country, target market and firm-related factors with entry modes (Wilson 1980; Caves and Mehra 1986; Gomes-Casseres 1989; Hennart 1991; Kim and Hwang 1992; Shane 1994). For example, Gomes-Casseres (1989) has developed an entry framework linking environmental and firm factors with the selection between wholly-owned investments and joint ventures. Drawing on the results of the previous section, that managers' control and resource motives are not determined by the above factors, it is suggested that these two motives are evaluated concurrently with the rest of the

factors.

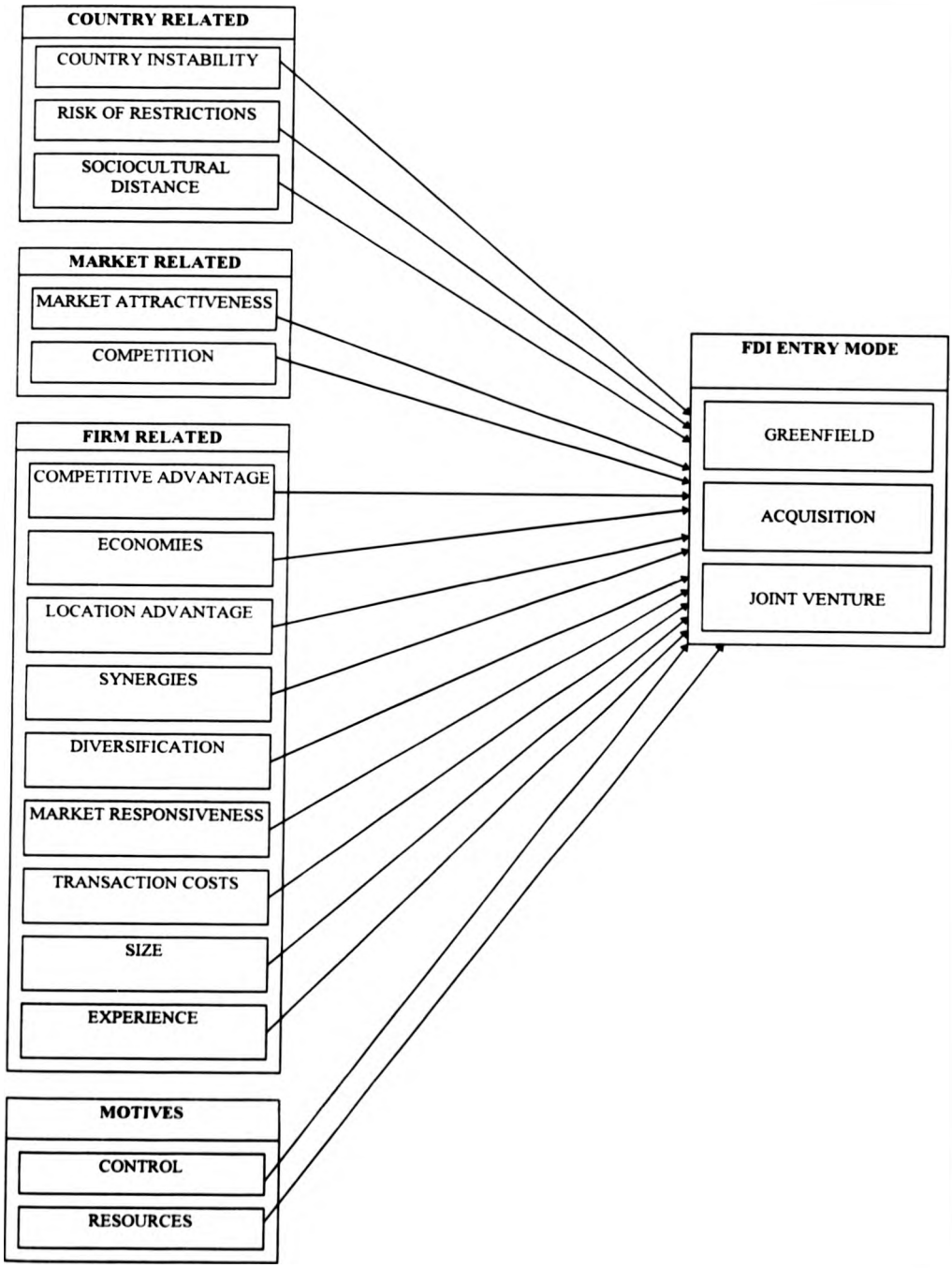
Figure 6.2 shows the proposed single-stage model. A comprehensive set of factors is linked to FDI entry modes. Managers simultaneously considering all these factors should decide which entry mode is more appropriate.

Compared to previous frameworks developed in the literature on foreign entry (Anderson and Gatignon 1986; Hill et al. 1990), this model is more comprehensive because it includes all the significant factors investigated in previous research. Additionally, it investigates how managers' motive for control and resources effect entry mode selection. These motives have not been investigated empirically.

The appropriateness of the singe-stage model will be evaluated by considering the significance and the classification accuracy of the model. Furthermore, the above performance criteria will be employed to compare this model with the control and resource-based model proposed by hypothesis 1.

Since some of the factors are significantly related to the control and resource constructs, testing the factors and constructs simultaneously will cause multicollinearity problems. To resolve this issue, orthogonal factors are derived by submitting the whole data set to factor analysis. Appendix D shows the final factors extracted from this analysis. In producing the factors, the construct development procedure discussed in section 5.8 has been

FIGURE 6.2. A SINGLE-STAGE MODEL



employed. The final factors obtained are exactly the same as the factors derived in Chapter 5. Additionally, there is a high level of correlation between the score of each factor (above 0.95) with the score of the respective factor derived in Chapter 5. The similarity of the two sets of factors suggests that the results of the single-stage model analysis can be compared with the results of the previous sections.

The next step is to determine fully the proposed single-stage model by hypothesising linkages between factors and the three entry modes.

6.5.2. *Developing new hypotheses*

The main hypothesis (hypothesis A) states that the overall model is significant, and therefore that the simultaneous effects of all factors (including the control and resource-related factors) determine the entry mode selection.

If results demonstrate that this model classifies entry modes more accurately than the control and resource-based model, then it can be concluded that the firm and environment-related factors directly contribute to the entry mode selection.

To further support the single-stage entry model, individual factor hypotheses are proposed linking factors to entry modes. The following discussion will establish

these hypotheses by assessing first the country, then the market, and finally the firm-related factors. Each hypothesis will be discussed briefly because the reader is familiar with the factors, and furthermore, arguments in this section are similar to the discussion in Chapter 4.

6.5.2.1. Country-related factors

Both country instability and the possibility of future government restrictions increase risk for foreign investments. The process model theme suggests that under these circumstances, managers reduce the risk exposure of the investment by reducing their commitment in the foreign country (Johanson and Valhne 1990). Drawing on this theme, entry mode selection studies have argued that risk associated with the host country should be linked with the selection of joint ventures (Anderson and Gatignon 1986; Hill et al. 1990). This hypothesis has been consistently confirmed by empirical studies. For example, Agarwal and Ramaswami (1992) have found that U.S. leasing firms were more likely to enter risky countries through joint ventures than wholly owned investments. It is anticipated therefore that,

Hypothesis A1: the greater the country instability, the more likely is a bank to choose joint venture in preference to a greenfield investment or acquisition.

Hypothesis A2: the greater the risk of restrictions, the more likely is a bank to choose joint venture in preference to a greenfield investment or acquisition.

Large **sociocultural distance** between the home and host country is a source of risk. This is because managers feel uncertain when gathering and evaluating information in different economic and political systems (Caves 1982). Furthermore, different business practices in the host country impose constraints on monitoring and evaluating employee performance (Jones and Hill 1988). Entry mode researchers have argued that the above differences discourage managers from committing resources. As a result, managers choose low equity entry modes (Davidson 1982; Root 1987; Erramilli and Rao 1993). Empirical studies that examined the selection between-wholly owned investments and joint ventures have consistently found that sociocultural distance positively influences the selection of joint ventures (Gomes-Casseres 1989; Erramilli 1991; Kim and Hwang 1992). The above discussion suggests that,

Hypothesis A3: the greater the sociocultural distance between the host and home countries, the more likely is a bank to choose joint venture in preference to a greenfield investment and acquisition.

6.5.2.2. Target market factors

Two factors will be discussed here, "market attractiveness" and "competition". Combining two theoretical themes, transaction cost analysis and barriers to entry, "market attractiveness" is linked to acquisitions and "competition" to joint ventures.

The transaction costs analysis theme suggests that **attractive markets** create profit opportunities which the firm must exploit through wholly-owned investments. Additionally, barriers to entry suggests that firms will choose entries which can provide the required resources quickly in order to maximize the return from the existing opportunities. Combination of the two arguments suggests that acquisitions should be preferred when the firm enters attractive markets. Empirical studies have confirmed each of the above arguments. However, both themes have not been tested in the same context. As a result, there is no empirical evidence to support or reject the proposed hypothesis.

Hypothesis A4: the higher the level of the market attractiveness, the more likely is a bank to choose acquisition in preference to a greenfield investment or joint venture.

The above-mentioned themes apply to **competition** as

well. Intense competition raises high barriers to entry, and therefore entrants require additional resources. Biggadike (1979) has argued that effective entry would require mass and local image. This is because low pricing and product differentiation are necessary for being competitive. Supporters of transaction costs have argued that competitive markets are risky, and that firms therefore avoid large equity investments (Harrigan 1988; Hill et al. 1990). The effects of competition on the selection of entry modes have not been confirmed empirically. However, combining the two arguments, it is suggested that joint ventures are preferred in competitive markets. Therefore the following hypothesis will be tested:

Hypothesis A5: the higher the level of competition in the target market, the more likely is a bank to choose a joint venture in preference to an acquisition or greenfield investment.

6.5.2.3. Firm-related factors

Four different groups of factors will be discussed here: bank strategies related to Dunning's eclectic theory, product-related strategies, bank characteristics and the bank's motive for control and resources.

Bank initiatives to exploit competitive advantage, economies, location advantage and synergies have been associated with control and consequently with wholly-owned

investments. Managers who perceive the new venture as a means of exploiting **competitive advantage** are expected to demand a high level of control of the venture. This will assure efficient implementation of the bank's advantage-seeking strategies (Buckley et al. 1992). Even though the effects of "competitive advantage" on entry mode selection have not been investigated, there is evidence to suggest that firms which possess competitive advantage prefer wholly-owned investments (Gatignon and Anderson 1988; Agarwal and Ramaswami 1992). Therefore, it is expected that,

Hypothesis A6: the stronger the motive to exploit competitive advantage, the more likely is a bank to choose a greenfield investment or acquisition in preference to a joint venture.

Similarly, managers who are keen to achieve **economies** of scale and scope will demand a high level of control of the foreign venture in order to manage the integration of the sources of economies, and then efficiently exploit the benefits arising from such economies. Yiannopulos (1983) has argued that a source of economies of scope in banking is the integration of commercial lending with retail operations in order to collect deposits in local currency. Despite the importance of economies in entry mode selection, empirical studies have not investigated this relationship. The above discussion suggests, however, that,

Hypothesis A7: the stronger the motive to exploit economies, the more likely is a bank to choose an acquisition or a greenfield investment in preference to a joint venture.

Discussion of the next two factors, **"location advantage"** and **"synergies"** is driven by the theme of coordination/configuration. The theme suggests that a firm assigns strategic roles to each operation in its network in order to achieve the most efficient utilization of its resources (Porter 1986). For example, in banking national operations are viewed as input sourcing sides of the bank's global network (Yiannopulos 1983; Campaign 1990). However, in order to benefit from the strategic interdependence between the operations in different countries, a high level of control over these operations is required to implement strategy most effectively. Kim and Hwang (1992) empirically tested and confirmed the proposed relationship between location strategy and control.

Applying the same concept at everyday operations level, the coordination/configuration theme suggests that firms can benefit from the efficient sharing and flow of resources amongst their network of operations. Porter (1985) has argued that the strategic importance of synergies arise from the firms ability to share investments and costs by joint use of the same assets. A competitor who does not have market diversity cannot do this. However, to achieve synergies, the firm must have control of its

operations. This argument has been supported by empirical studies on entry mode selection (Gomes-Casseres 1989; Hennart 1991; Kim and Hwang 1992). For example, Kim and Hwang (1992) have found that firms sharing marketing, manufacturing and distribution resources across different foreign operations have chosen wholly owned investments. Drawing on the above arguments two hypotheses are developed:

Hypothesis A8: the stronger the motive to exploit location advantage, the more likely is a bank to choose a greenfield investment or acquisition in preference to a joint venture.

Hypothesis A9: the stronger the motive to benefit from synergies, the more likely is a bank to choose a greenfield investment or acquisition in preference to a joint venture.

Implementation of product strategies requires additional resources. Accordingly, discussion of the bank's product diversification and market responsiveness strategies will draw on the barriers to entry theme.

Firms pursuing product **diversification** require substantial resources to enter the market. This is because the mismatch between the resources required by the entrant's strategy and the resources which can be transferred to the market is great. Research on the selection of entry modes has argued that in a situation like this, firms will choose modes which can provide the

entrant with complementary resources. Empirical studies have supported this argument by finding that product diversification is related to the selection of acquisitions and joint ventures (Yip 1982; Hennart 1991; Hennart and Park 1990). The above discussion suggests that,

Hypothesis A10: the more different is the business entered as compared to the bank's core business, the more likely is the bank to choose acquisition or joint venture in preference to a greenfield investment.

The barriers to entry theme suggests that firms employing **market-responsive** strategies face significant entry barriers. This is because entrants directly encounter local competitors who are already established in the market. To compete effectively, the firm must at least match the resources of the incumbents (Chatterjee 1990). Buckley et al. (1992), studying cross-border entries of U.K. retail banks, have found that banks responding to local markets were concerned with lack of resources such as distribution, local image and local knowledge. Buckley et al. have reported that as a result of this, these banks have considered acquisitions and joint ventures to be more attractive entry routes. Drawing on the barriers to entry theme, it is expected that:

Hypothesis A11: the stronger the motive for market responsiveness, the more likely is a bank to choose

acquisition or joint venture in preference to a greenfield investment.

Three bank characteristics will be investigated: transaction costs, size and experience. These factors influence the firms' perception of resource requirements and resource commitment. As a result, a number of themes are employed.

Transaction costs have been discussed extensively in the entry mode literature because the transfer and maintenance of intangible resources in foreign operations is a risky process (Hennart 1982; Anderson and Gatignon 1986; Hill et al. 1990). Adopting transaction cost analysis, studies on foreign entries have argued that firms facilitate the transfer and protection of their intangible resources by demanding control of their foreign ventures.

However, given that intangible resources are often embedded in the firm's labour force and therefore bound to the organization, the firm can have difficulty in transferring these resources to an acquired unit (Park and Hennart 1993). The quality standard is an example of such a resource because it can be achieved through sophisticated management practices such as work teams, careful selection and training. Hennart and Park (1993) have empirically supported the argument that firms perceiving transaction costs avoid acquisitions. Drawing on the above discussion it is suggested that,

Hypothesis A12: the higher the transaction costs, the more likely is a bank to choose greenfield investment in preference to acquisition or joint venture.

The relationship of **size** and entry modes has been investigated employing both transaction cost analysis and barriers to entry. The former theme suggests that large firms can commit more intangible resources to the foreign market. Consequently, it is expected that firms will demand a high level of the equity in order to capitalise and protect these resources (Agarwal and Ramaswami 1992; Erramilli 1996). Following a similar logic, barriers to entry suggest that large firms have greater resources to overcome barriers to entry, and therefore should not require additional resources. A combination of the two arguments suggests that large firms should prefer greenfield investments.

Empirical studies have supported the thesis that large firms select wholly-owned investments (Agarwal and Ramaswami 1992; Erramilli and Rao 1993). However, empirical studies that examined the choice between acquisitions and greenfield investments have found mixed results (Yip 1982; Mehra and Caves 1986; Kogut and Singh 1988). Despite these results, it is reasonable to argue that,

Hypothesis A13: the greater the size of the parent bank, the more likely is the bank to choose greenfield investment in preference to an acquisition or joint venture.

Recognising that **experience** is a source of local know-how, entry mode studies have employed two themes to link experience to entry choice, the process model and barriers to entry. Proponents of the process model argue that market uncertainty, the decision-maker's inability to estimate market-influencing factors, occurs due to lack of market experience (Aharoni 1966). As a result, inexperienced firms will avoid committing substantial resources by avoiding wholly-owned investments (Gatignon and Anderson 1988).

The barriers to entry theme suggests that inexperienced firms are not familiar with local practices, and that they therefore find difficulty in competing in the foreign market because they do not know how to run the foreign venture. Drawing on this argument, entry mode studies have suggested that firms with limited experience select entry modes that can provide the entrant with extra resources (Comes-Casseres 1989; Hennart and Park 1993).

The above arguments suggest that inexperienced firms should enter markets through joint ventures. Empirical studies that considered joint ventures in the selection of entry modes have provided support to the above proposition (Gomes-Casseres 1989; Hennart 1991). However, studies comparing acquisitions and greenfield investments have found insignificant and inconsistent results. These findings have been attributed to the failure of the studies to consider joint ventures. The foregoing discussion suggests that,

Hypothesis A14 the lower the level of experience of the parent bank, the more likely is it that the bank will choose a joint venture in preference to a greenfield investment or acquisition.

The final group of firm-related factors are the firm's motives for control and complementary resources. However, since the relationship of these motives with entry mode selection was established in Chapter 4, the hypotheses developed previously will be restated.

Hypothesis A15: the stronger the desire for control, the more likely is a bank to choose greenfield investment or acquisition in preference to a joint venture.

Hypothesis A16: the stronger the need for complementary resources, the more likely is a bank to choose acquisition or joint venture in preference to a greenfield investment.

A summary of the suggested hypotheses is shown in Table 6.6. A plus(+) sign under an entry mode indicates that the higher the factor, the more likely is it that managers will choose that entry mode over the entry mode(s) with no sign. In addition, Figure 6.3 shows the complete single-stage entry model. The following analysis will test and discuss this model.

Table 6.6: Summary of hypotheses

Hypothesis	Factors	Entry Mode: Greenfield	Acquisition	Joint Venture
HA1	Country Instability			+
HA2	Risk of Restrictions			+
HA3	Sociocultural Distance			+
HA4	Market Attractiveness		+	
HA5	Competition			+
HA6	Competitive Advantage	+	+	
HA7	Economies	+	+	
HA8	Location Advantage	+	+	
HA9	Synergies	+	+	
HA10	Diversification		+	+
HA11	Market Responsiveness		+	+
HA12	Transaction Costs	+		
HA13	Size	+		
HA14	Experience			+
HA15	Desire for Control	+	+	
HA16	Need for complementary Resources		+	+

6.5.3. *Presentation and analysis of results - do firm and environment-specific factors affect entry mode selection?*

The single-stage model will be analyzed through multinomial logit analysis (McFadden 1975). This is the traditional approach taken by entry mode studies that simultaneously examine the effects of a number of variables on the selection among distinct entry modes (Kogut and Singh 1988; Kim and Hwang 1992; Erramilli and Rao 1993).

The results of the multinomial logit analysis are presented in Table 6.7. Maximum likelihood estimates of the coefficients are reported and assyptotically distributed t-statistics are displayed under the coefficients. Part A shows the results of the selection of greenfield investment or acquisition compared to the selection of joint venture,

FIGURE 6.3. A COMPLETE SINGLE-STAGE MODEL

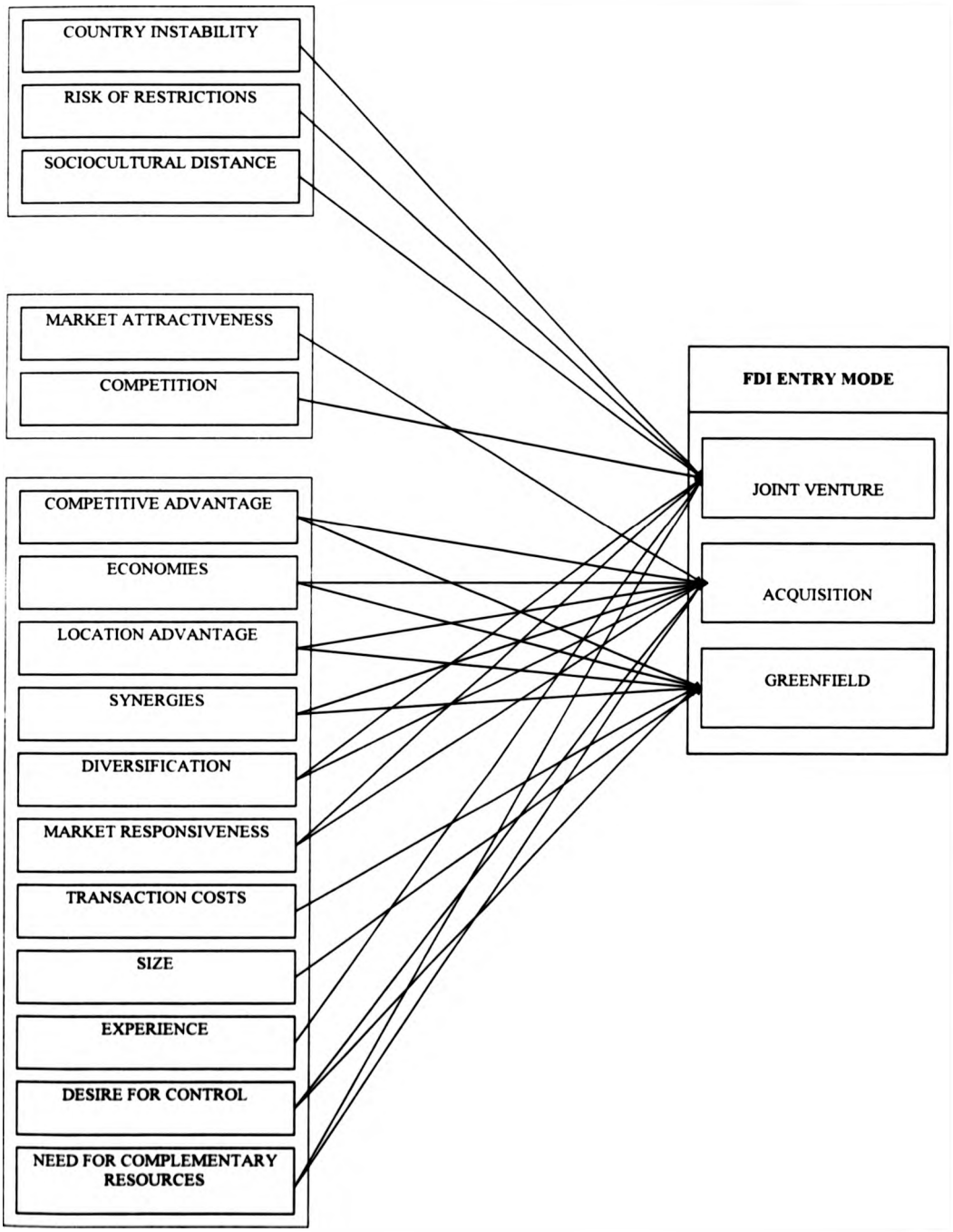


Table 6.7. Parameter Estimates for the Multinomial Logit Model of Entry Mode Selection

Part A: Joint ventures compared to greenfield investments and acquisitions

	CON	DC	NR	ADV	LA	EC	SYN	DIV	MR	CD	CI	RR	TC	MA	COM	SIZ	EXP
JV	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
GR	1.27	2.83	-1.53	0.01	0.09	0.61	0.78	-1.01	-0.12	-0.04	-0.62	-0.79	1.13	-0.80	0.87	-1.00	0.01
	2.36[b]	5.31[a]	-3.92[a]	0.02	0.24	1.66[c]	2.04[b]	-2.36[b]	-0.35	-0.13	-1.71[c]	-2.08[b]	2.50[b]	-2.32[b]	2.21[b]	-0.19	1.24
ACQ	1.16	2.45	-0.02	-0.14	0.42	0.81	0.59	-0.54	0.04	0.13	-0.29	-1.04	0.69	-0.22	1.07	0.13	0.02
	2.23[b]	4.94[a]	-0.06	-0.45	1.07	2.36[b]	1.61[c]	-1.32	0.13	0.37	-0.81	-2.63[a]	1.57	-0.68	2.77[a]	0.26	1.56[c]

Part B: Greenfield investments compared to acquisitions

	CON	DC	NR	ADV	LA	EC	SYN	DIV	MR	CD	CI	RR	TC	MA	COM	SIZ	EXP
GR	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
ACQ	-0.10	-0.38	1.51	-0.15	0.32	0.20	-0.18	0.47	0.16	0.17	0.33	-0.24	-0.44	0.58	0.40	0.23	0.01
	-0.30	-1.39	4.70[a]	-0.51	1.07	0.70	-0.66	1.60[c]	0.56	0.63	1.17	-0.86	-1.61[c]	2.02[b]	1.38	0.75	0.14

Model Chi-Square: 112.7
p-value: 0.00
n: 124

a:p<.01 b:p<.05 c:p<.1

JV: Joint Venture
GR: Greenfield
ACQ: Acquisition
CON: Constant
DC: Desire for Control
NR: Need for Resources
ADV: Competitive Advantage
LA: Location Advantage
EC: Economies
SYN: Synergies
DIV: Diversification
MR: Market Responsiveness
CD: Sociocultural Distance
CI: Country Instability
RR: Risk of Restrictions
TC: Transaction Costs
MA: Market Attractiveness
COM: Competition
SIZ: Size
EXP: Experience

and Part B indicates the results of the choice of acquisition in compared to the selection of greenfield investment.

The chi-square of the model with 30 degrees of freedom is 112.7, resulting in p-value of 0.00. This result shows that the overall model is significant, which supports hypothesis A. Therefore, the collective consideration of country, market and firm-related factors can explain the entry mode selection.

Comparing this model with the control and resource-based model discussed in section 6.3, it is observed that the chi-square of the model due to the venture-specific factors is 45.5 with 28 degrees of freedom, which is significant at 0.05 level. In addition, the ability of this framework to predict the choice of entry mode is examined. Table 6.8 shows its classification matrix which indicates that 101 cases are classified correctly. Out of these, 46 (88%) are greenfield investments, 34 (87%) are joint ventures and 21 (64%) are acquisitions.

Table 6.8. Classification matrix

Actual	Predicted			
	Greenfield	Acquisition	Joint venture	Total
Greenfield	[46]	3	3	52
Acquisition	8	[21]	4	33
Joint venture	2	3	[34]	39
Total	56	27	41	124

Inclusion of the firm and environment-specific factors in the model has increased prediction power by 21%. Improvement has occurred in the differentiation between greenfield investments and joint ventures and between greenfield investments and acquisitions (see Tables 6.2 and 6.8).

Although the control and resource-based framework mis-classified 13 greenfield investments as joint ventures or vice versa, the new model has reduced these cases to 5. This significant improvement indicates that in addition to the preference for control, some of the factors contribute directly to the differentiation between greenfield investments and joint ventures. Empirical studies on entry mode selection have demonstrated the ability of risk and strategic-related factors to differentiate between these two entry modes. For example, Kogut and Singh (1988) have found that the existence of proprietary assets influences managers to avoid joint ventures. The individual factor results, which will be discussed in detail shortly, confirm this argument by suggesting that risk factors, like host country instability and risks of government restrictions, influence the selection of joint ventures.

In addition, the single-stage model has reduced the acquisitions mis-classified as greenfield investments from 13 to 8. This finding implies that besides the managers' general preference for resources, factors specific to the venture contribute to the differentiation between the two entry modes. For example, when proprietary assets must be transferred, managers prefer greenfield investment over

acquisition because it is difficult to transfer resources across organizational boundaries.

The above findings propose that the single-stage model, which combines the managers' general preferences for control and resources and the factors related to the venture under investigation, is the appropriate entry mode selection framework. Managers, drawing on a collective evaluation of the relevant factors, identify the entry mode that can best facilitate their perceptions. This approach has been adopted by the entry mode literature. For example, Hill et al. (1990) have associated strategic, environmental and transaction-related factors to the provision of control and the resource requirements of entry modes.

The following discussion will investigate how each individual factor influences the entry mode selection. Since the interpretation of Table 6.7 may not be trivial, a summary of the results is shown in Table 6.9. This Table shows the direction and the significance of each relationship. A plus (+) under a mode indicates that the higher the factor across the sign, the more likely is this mode to be chosen over the base mode, and vice versa for a minus sign.

A close investigation of the model coefficients indicates that a number of factors have significant influence on entry modes which supports the above discussion. However, the control and resource factors are the strongest contributors to entry mode selection. This

Table 6.9. Summary of the results

Hypothesis	Factor	Joint Venture	Greenfield	Acquisition	Hypothesis result
HA1	Country Instability	0	- 0	-(c) +	Partially confirmed
HA2	Risk of Restrictions	0	-(b) 0	-(a) -	Confirmed
HA3	Sociocultural Distance	0	- 0	+ +	Rejected
HA4	Market Attractiveness	0	-(b) 0	- +(b)	Partially confirmed
HA5	Competition	0	+(b) 0	+(a) +	Rejected
HA6	Competitive Advantage	0	+ 0	+ -	Partially confirmed
HA7	Economies	0	+(c) 0	+(b) +	Confirmed
HA8	Location Advantage	0	+ 0	+ +	Partially confirmed
HA9	Synergies	0	+(b) 0	+(c) -	Confirmed

Hypothesis	Factor	Joint Venture	Greenfield	Acquisition	Hypothesis result
HA10	Diversification	0	-(b) 0	- +(c)	Confirmed
HA11	Market Responsiveness	0	- 0	+ +	Partially confirmed
HA12	Transaction Costs	0	+(b) 0	- -(c	Confirmed
HA13	Size	0	- 0	+ +	Rejected
HA14	Experience	0	- 0	- -	Rejected
HA15	Desire for Control	0	+(a) 0	+(a) -	Confirmed
HA16	Need for complementary Resources	0	-(a) 0	- +(a)	Confirmed

a: p<.01 b:p<.05 c:<.1

result suggests that managers place considerable importance on their general preference for control and complementary resources when making entry mode decisions. Discussion in section 6.4 has suggested that these preferences are strong for most banks due to their information-intensive nature and their strategic priorities. For example, an executive from Deutsche Bank has stated that his bank is strongly in favour of acquisitions because they can satisfy Deutsche Bank's full control and intense resource requirements (Hoschka 1993). Consequently, the strong relationships suggested above should not be assumed in any entry context. This issue will be discussed in more detail in the next section.

The risks associated with the host country are significantly considered in the selection of entry modes. The possibility of future restrictions on the foreign operation influences managers to choose joint ventures because they require the commitment of less resources. This result confirms hypothesis A2.

This factor is considered to be a dimension of country risk, and it has therefore not been studied directly in an entry mode framework. However, empirical research has consistently linked country risk to joint ventures (Gatignon and Anderson 1988; Erramilli and Rao 1993).

Similarly, country instability influences the choice towards joint ventures. Even though findings suggest that joint ventures are preferred to greenfield investments,

there is no evidence to suggest that joint ventures are preferred over acquisitions. Therefore, hypothesis A1 is partially supported.

This result suggests that acquisitions are chosen in semi-stable markets, where managers are cautious about the political and economic condition of the host country. Should the management's expectations not be met, assets invested in acquisitions can be redeployed more easily than assets invested in greenfield investments, because the purchased assets have a resale value. Additionally, Harrigan (1985) has argued that acquisitions require the transfer of fewer proprietary assets to the foreign market, and thus, the exit cost is reduced.

The association of country risk and joint ventures is confirmed by bank entries in risky emerging countries, like Eastern Europe and the Pacific Rim, through joint ventures. According to Jones (1994), 35 of the 58 bank entries in Eastern Europe were joint ventures.

The effects of sociocultural distance on the choice of entry modes are non-significant. This finding suggests that besides being a source of investment risk, sociocultural distance is linked to additional risks. For example, it can result in different organizational characteristics due to different practices across countries. This in turn can pose significant problems for acquisitions and joint ventures (Bendix 1956).

Acquisitions require integration of the acquired firm

to the parent which can be a problem when the merged organizations are very different. A number of studies have documented conflicts, discomfort and hostility between members of the two organizations which make the process of integration difficult (Sales and Mervis 1984; Datta 1991; Woodcock et al. 1994). Gardener (1990) has argued that almost all banks that purchased a stock market firm in London had experienced integration problems.

Additionally, opportunism, which can cause serious transaction costs in joint ventures, differs across societies (Bass and Franke 1972; Ouchi 1980). Accordingly, managers who perceive that sociocultural distance can result in opportunistic behaviour will avoid joint ventures.

The above discussion suggests that managers can relate sociocultural distance to entry mode selection in many different ways, and it is therefore not surprising that the results are not significant. Non-significant results have also been reported by Gatignon and Anderson (1988) who attributed the outcome to the difficulty of managing partners.

Market-related factors are seriously considered during the entry mode selection process. Managers evaluating attractive markets are more likely to select acquisitions or joint ventures because they provide speedy entry to the market. This result provides partial support to hypothesis A4 which suggests that acquisitions are preferable in

attractive markets. This finding shows that in attractive markets, control is not considered to be as important as bypassing barriers to entry. Empirical studies have consistently supported the importance of entering attractive markets quickly (Caves and Mehra 1986; Hennart 1991; Hennart and Park 1993). Additional support is provided by Buckley et al. (1992) who have found that banks enter markets with good potential through acquisitions or joint ventures. According to a bank executive, "entering a lucrative market quickly is very critical because many banks are competing for the same opportunities" (Buckley et al. 1992).

Competition is found to be related to the selection of greenfield investments and acquisitions. Consequently, in competitive markets, managers are concerned with control. Hypothesis A5 proposed exactly the opposite. This hypothesis has drawn on previous research which has suggested that competitive markets increase the managers' uncertainty about the performance of the foreign market, and therefore influence the commitment of low resources (Harrigan 1988; Kim and Hwang 1992).

This finding implies that managers are more concerned with efficiently implementing their strategies than with reducing investment risk. This outcome is not surprising when considering the bank strategic priorities discussed in Chapter 3. Similar findings have been reported by Hoschka (1993), who has found that banks entering competitive

markets select high control modes. He explained this by arguing that competitive markets are often strategic locations for banks. The above discussion suggests that this result can be specific to the banking industry, and may not be generalizable to other industries.

Investigation of the strategic factors associated with Dunning's eclectic theory, has indicated that they are linked to the selection of greenfield investments and acquisitions.

Motives for exploiting economies of scope and scale are significantly associated with high control modes, confirming hypothesis A7. Even though this factor has not been empirically studied, literature on the internationalization of banking has argued that banks achieve economies through control (Gray and Gray 1981; Yiannopulos 1983; Tschoegl 1987).

Similarly, motives to exploit internal synergies are found to be associated with greenfield investments and acquisitions, which confirms hypothesis A9. Managers expecting to achieve benefits from sharing and transferring resources among the new venture and the bank's network of operations choose high control entry modes. Gray and Gray (1981) have argued that banking operations must be internalised in order to serve international clients adequately. This is because accounts can be managed more efficiently due to a faster flow of information. The importance of synergies in banking should account for the

large percentage of wholly-owned bank operations (Yiannopulos 1983). The association of synergies with wholly-owned investments has also been reported by entry mode studies (Gomes-Casseres 1990; Hennart 1991; Kim and Hwang 1992).

"Competitive advantage" and "location advantage" are positively signed when greenfield investment and acquisition are compared to joint ventures. In both cases however, the coefficients are not significant. Therefore, hypothesis A6 and A8, which suggest that managers seek high control modes, are partially supported.

In addition to the control issue, banks motivated to exploit competitive advantage may rush the foreign entry in order to capitalize on the opportunities present. Buckley et al. (1992) have argued that U.K. banks preferred acquisitions and joint ventures when they perceived that they could serve foreign markets better than the incumbents. On the other hand, knowledge-based advantage may suggest that managers perceive lower barriers to entry (Chatterjee 1990), and therefore managers may regard greenfield investments as being more cost-effective (Yip 1982; Chatterjee 1990). The above arguments suggest that managers do not consistently select a particular entry mode. Inconclusive results have been also reported by Agarwal and Ramaswami (1992), who found that the ability of the firm to develop differentiated products had a positive but non-significant effect on the firm's propensity to

choose wholly-owned investments over joint ventures.

Managers motivated to exploit location advantage by strategically configuring the new venture may not be rigid about wholly-owned investments, because they often seek closer relationships with other banks. This is true when the bank is using the venture to learn new skills. A number of researchers have argued that managers interact with foreign managers in shared control set-ups where they observe novel practices (Franco 1971; Ohmae 1985; Prahalad and Hamel 1990). In addition, due to the excessive resources required to implement positioning strategies, banks often form alliances so that they can jointly establish ventures in strategic locations (Hoschka 1993). BNP and Dresdner, the Royal Bank of Scotland and Banco Santander, are a few of the alliances which aim to position the respective banks in the United Europe.

The above argument indicates that all three entry options can be utilised when the bank is motivated to exploit location advantage. Therefore, the non-significant results should be anticipated.

"Product diversification", the managers' motive to enter non-core product areas, is significantly related to acquisitions and joint ventures, which confirms hypothesis A10. Even though this factor has not been investigated adequately in the context of all three FDI entry modes, the avoidance of greenfield investments in product

diversifications has been reported by a number of entry mode studies (Stopford and Wells 1972; Zejan 1990; Hennart and Park 1993). For example, Zejan (1990), studying foreign entries of Swedish multinationals, has found that entries into non-core business areas employed acquisitions over greenfield investments. The acquisitions of two asset management firms, Morgan Grenfell and Kleinwort Benson, by Deutsche Bank and Dresdner Bank respectively, are in line with the above arguments. Senior bank executives have attributed these acquisitions to the strategies of the banks of gaining new skills and speedy growth in the asset management business.

Even though "market responsiveness" is associated with the selection of resource-providing modes, its coefficients are not significant. The strategy of serving a wide product line adapted to local needs involves risks of product failure. Accordingly, banks may often demand control of the venture in order to ensure that the appropriate support is given to the product (Enderwick 1989). In such a case, banks may consider pursuing greenfield investments as well. The above argument suggests that banks can pursue all three options when responding to local needs, which explains the fact that the results are not significant.

The multinomial logit results suggest that bank characteristics affect entry mode selection quite differently. When managers perceive high transaction costs,

greenfield investment is preferred over acquisition or joint venture. This result confirms hypothesis A12. Similar findings in the context of all three entry modes have been reported by Kogut and Singh (1988). Due to the information-intensive nature of banking, managers evaluating foreign entries have been sensitive about transaction costs. For example, Buckley et al. (1992) have found that banks transferring sensitive information cross-border have considered greenfield investments as the only feasible option.

The size of the bank does not have a significant impact on the choice of entry modes. This result can be attributed to two causes. A few studies have found that larger parents choose acquisitions, due to their ability to integrate the acquired unit to their operations efficiently (Yip 1982; Caves and Mehra 1986). These findings are in conflict with the barriers to entry argument, adopted by hypothesis A13, which suggests that large banks select greenfield investments. Consequently, the size of the bank can influence managers to evaluate entries in a variety of ways which can result in non-significant results.

Alternatively, the heavy representation of large banks in the sample may have reduced the explanatory power of bank size. Kogut and Singh (1988) have given a similar explanation for the confusing results associated with size. Given that this reason is a possibility, the above results should be considered specific to banking since large size is necessary for bank internationalization.

The effect of bank experience on entry modes is non-significant as well. This finding does not support the process model and the barriers to entry themes which suggest that experience is negatively associated with joint ventures. The non-significant results could be attributed to competing theories. A few studies have supported the view that managers lacking experience prefer control of the foreign venture in order to have their own nationals in key positions (Weichmann and Pringle 1979). Experienced firms, on the other hand, are more confident of their ability to effectively exploit local expertise, and would therefore prefer joint ventures. Additionally, inexperienced firms find it difficult to assess the performance of partners, and thus may desire control in order to monitor employee performance (Williamson 1975). It is possible, therefore, that inexperienced banks down-play the investment risks and emphasize organizational issues, while experienced banks search for local expertise. Given all these possible influences that experience can have on entry modes, the non-significant results should not be surprising. Similar results have been reported by Kogut and Singh (1988). Furthermore, Sharma and Johanson (1987), studying the internationalization of Swedish technical consultancy firms, did not find any evidence of incremental process and concluded that experience may not be a determinant of control.

Summarizing, ten out of the sixteen individual factors

have a significant influence on the selection of entry modes. These relationships contribute to the ability of the single-stage model to differentiate among FDI entry modes (see Table 6.9). The following section will discuss the major findings.

6.5.4. *Discussion*

The multinomial logit results indicate that the single-stage model can explain entry mode selection more accurately than the control and resource-based model, because it can classify entry modes more accurately. The superiority of the single-stage model is attributed to the fact that managers associate firm and environment-specific factors directly with acquisitions, greenfield investments and joint ventures. For example, when managers perceive there to be risks of government restrictions, joint ventures are selected. This mode requires less resources, which suits the managers' requirements.

Consequently, the managers' fixed preferences, reflected in the parsimonious control and resource-based model, are too rigid to capture the unique character of the foreign investment under investigation.

Considering, however, that managers' desire for control and need for complementary resources have the largest influence on entry mode selection, it can be argued that the decision, to a large degree, does not depend on the evaluation of the particular venture, but rather on

bank policies and managers' previous experiences. This finding challenges the assumption of previous entry studies that the choice of entry mode is solely based on the evaluation of factors related to the venture under investigation.

The above discussion should suggest that when managers select the route of entry, they strike a balance between their perceptions developed after the evaluation of the investment and their fixed perceptions and policies. Some banks, being aware of their information-intensive nature (Casson 1989) and the high customer-switching costs (Hoschka 1993), are more concerned about their general preference for control and resources. However, other firms may not consider important their general preferences for control and resources, because the setting where they operate requires flexibility with foreign entries. Dunning (1993) has argued that global, research and development-oriented firms should form alliances to foster innovation through resource exchange and further should maintain control of their operations in strategic markets in order to facilitate implementation of their global strategies.

Confirmation of most of the hypotheses developed in this chapter suggests that managers, after the evaluation of the factors, choose the entry mode whose characteristics satisfy more their perceptions more closely. The logic employed to develop the single-stage model hypotheses is mostly driven by the ability of entry modes to provide control and resources to the entrant. This is because these

two concepts are the main characteristics of entry modes (for a detailed discussion see section 3.3.1). It follows that the entry selection process is very similar to the selection mechanism suggested in Chapter 4, which links factors to entry modes through the managers' motives for control and resources. However, since analysis has not suggested that managers consciously form a level of desired control and resources after the evaluation of the investment, these factors have been associated directly with entry modes.

The multinomial logit analysis has shown that a large number of factors have different influences on the selection of entry modes. When all these influences are viewed together, one entry mode is selected. Country risks, the target market environment, strategic motives and the character of the bank contribute to this decision. This finding agrees with previous empirical entry research. For example, Kim and Hwang (1992) have found that strategic, environmental and transaction-related factors significantly affected the choice of entry modes. The following discussion evaluates each group of factors.

Factors related to host country instability and the risk of government restrictions influence the selection in favour of joint ventures. These factors are particularly important in banking because banks invest significantly in emerging markets (Sabi 1988). Even though these countries offer great opportunities, they entail high risks for

investors, because emerging countries are economically and politically unstable (Root 1987). Firms in other industries may avoid risky countries or may not consider country-related risks to be important. This is because most economies are in the process of opening up and harmonizing with international agreements. For this reason, a number of authors have argued that country risks may have stopped being important in entry evaluation (Kobrin 1983; Davidson and McFetridge 1985; Miller 1992). The above discussion suggests that country instability and the risk of restrictions are seriously evaluated in business areas which have major interests in risky countries.

Not all offensive bank strategies, studied in the frame of Dunning's eclectic theory, contribute significantly to the selection in favour of wholly-owned investments. Managers who demand control are interested in facilitating internal synergies and economies of scale and scope. These findings suggest that banks organize their international operations in such a way as to benefit from the interrelationships that exists between different financial business areas, and the sharing of resources of resources across national boundaries. For example, the aim of certain banks to become financial supermarkets implies more business unit integration, in order to manage the customer relationship more efficiently (Campayne 1990).

However, managers do not always seek control when they strategically aim to configure the new venture. This is because partnerships are often necessary to obtain market

expertise and broad distribution. Bank response to United Europe has shown that entering the strategic European markets requires immense resources (Buckley et al. 1992).

The banking industry is characterised by intangible resources such as commercial information, service skills and reputation (Rugman 1981; Casson 1989; Dunning 1993). This study has shown that managers are concerned about the risks associated with transfer and protection of these resources. For this reason, managers prefer greenfield investments, because otherwise, it is difficult to transfer intangible resources across organizational boundaries. This relationship should be strong in any context where the firm must expose its proprietary assets. The literature has associated this phenomenon with service and high research and development-oriented firms (Anderson and Gatignon 1986; Hennart and Park 1993).

The analysis has indicated a few problems as well. The over-representation of large banks in the sample may have biased some of the results. The majority of the banks examined have the ability to invest significant resources in foreign ventures, so that they are not as risk averse as an average-sized firm.

Additionally, these banks have experience with establishing foreign ventures, and as a result are more comfortable with certain entry arrangements. This argument may explain the strong influence of the managers' desire for control and resources on entry decisions.

Furthermore, results such as the non-significance of competitive advantage can be attributed to the study of large banks. These banks possess ample resources, and their managers may thus perceive significant sources of competitive advantage, and therefore give similar answers to the questions relating to competitive advantage, thereby reducing the variability of the factor.

Since large size is a characteristic of multinational banks (Gray and Gray 1981; Yiannopulos 1983), the results should be assessed cautiously when extrapolated to the internationalization of small firms.

Additionally, some of the results cannot be generalised in any entry mode selection context because banks have some characteristics which are unique to that industry. For example, their information-intensive nature, the synergies within their network of operations and their significant investment in emerging countries. Results which have been attributed to these characteristics must be examined carefully before they are generalised over to other industries.

6.6. SUMMARY

In this chapter, the two-stage entry mode selection framework has been tested through multinomial logit and regression analysis. Results have suggested that managers' motives for control and resources do determine the entry mode selection. However, these motives are not consciously

formed after evaluation of the investment. As a result, the two-stage model has been rejected.

Given that empirical research on entry modes has traditionally supported a direct relationship between factors and entry routes, a single-stage model has been proposed. In establishing this model, the entry mode selection logic supported in Chapter 4 has been adopted by employing the themes related to transaction costs, barriers to entry, process model and coordination/configuration.

This model has combined factors associated with the new venture and managers' preference for control and resources. The latter is reflected in the two constructs, desire for control and need for complementary resources.

Testing of this model has suggested that it can explain entry mode selection more accurately than the control and resource-based model. Therefore, the choice of entry modes is determined by evaluating the factors relating to the investment in the context of the managers' preferences for control and resources. These preferences have not been empirically studied in entry mode research.

Factors related to country risks, the target market, the bank's strategic motives and the transaction-specific character of banks, differentiate among entry modes. All these effects evaluated together result in the selection of one foreign direct investment entry mode.

This model is the most comprehensive model of entry mode selection to date. It evaluates most of the important

factors studied in previous research, it employs the major themes used to link factors to entry modes, and most importantly, it can differentiate among all foreign direct investment entry modes.

CHAPTER 7: CONCLUSION

7.1. INTRODUCTION

In the previous two chapters many findings were discussed. In this final chapter, these findings are reviewed and consolidated in the context of the objectives of this study. The aim is to identify implications for theory and practice, evaluate the quality of research, and finally, delineate promising lines of research for the future.

In section 7.2 the objectives of the study, the methodology followed to achieve them, and the final findings are reviewed. Section 7.3 evaluates the contribution of this piece of research to theory; to the literature on internationalization of banking and on entry mode selection, and to practice; to managers who make decisions about foreign entry modes. In section 7.4 the limitations of the research design are evaluated and section 7.5 suggests directions for future research.

7.2. A SUMMARY OF THE METHODOLOGY AND THE RESEARCH FINDINGS

In Chapter 1 a question was posed, "What determines the choice of foreign entry modes in banking?"

To answer this question, the relevant theory has been researched and the themes related to the internationalization of the firm have been evaluated within

the literature on internationalization of banking and the literature on entry mode selection. The results of this exercise have suggested a mechanism of selecting entry modes which is driven by the firm's desire for control and need for resources. This mechanism has been formulated as a framework of bank entry mode selection. This model is based on a comprehensive set of factors found to be related to the choice of entry modes and bank internationalization. According to the suggested mechanism, evaluation of these factors creates a desired level of control and a need for certain resources. These two motives are considered together by managers in order to determine the choice of a foreign direct investment entry route.

The development of this model has established the theoretical set-up for achieving the objective of this study. The next step was to test this model. To achieve this, hypotheses were developed supporting the linkages in the framework. Furthermore, the elements of the model were operationalized and perceptual data were collected from senior bank executives through mailed questionnaires. The data received were validated and then reduced to a set of reliable factors. These factors were employed to test the bank entry mode framework. The main empirical findings are summarised below.

The proposed entry mode selection mechanism which is driven by the managers' motives for control and resources is valid. Managers choose the mode of entry based on the

mode's ability to provide control and resources to the entrant. Control motives differentiate between greenfield investments and acquisitions on the one hand and joint ventures on the other, and resource motives differentiate acquisitions and joint ventures from greenfield investments. When both motives are considered together, one entry mode is determined.

However, rejection of the two-stage model proposed initially suggests that managers do not consciously decide on some level of control and resources after they have evaluated the factors related to the foreign investment under investigation. Instead, they link these factors directly with entry mode characteristics related to control and resources driven by four major themes: transaction costs, barriers to entry, process model and coordination/configuration.

Nevertheless, managers have general preferences for control and resources which result from previous experiences with foreign investments and organizational policies. These motives are so strong in banking that they can differentiate entry modes.

The above findings suggest that an appropriate model of entry selection should consider both managers' general preferences for control and resources and factors related to the specific entry. Such model can explain all foreign direct investments, namely greenfield investment, acquisition and joint venture. Empirical testing of this model has shown a good fit (significant at 0.000 level) and

ability to predict 81% of entry mode chosen.

The individual factor effects on the choice of entry modes highlight the relationship of entry selection with bank strategies, bank characteristics and market conditions.

Bank strategic motivations have greater influence on the selection of high control modes and less influence on the selection of resource providers. Banks capitalizing on economies between different financial business areas, in a global setting, would avoid joint ventures. A similar entry is chosen when managers perceive operational synergies within their bank's network.

However, banks implementing diversification strategies would avoid greenfield investments. These strategies are resource demanding, and therefore cannot be effective unless these proprietary resources are accessed instantly.

Joint ventures are preferred in unstable countries, like emerging markets. Investments in these countries are risky and banks avoid committing significant resources.

Bank managers are aware of their proprietary resources. Therefore, when they perceive there to be risks in transferring and sharing their intangible resources across organizational boundaries, they would prefer to choose greenfield investments.

In entry decisions, desire for control is valued more than the need for resources. In fact this factor is more significant than any other factor investigated in this

framework. Due to this, the entry mode model is relatively inefficient in differentiating acquisitions from greenfield investments.

Besides the findings which are related to the choice of entry modes, factor analysis has suggested that the hypothesised factors exist, and most importantly, contain the variables identified through the construct development process (Churchill 1979). Therefore, managers consider the socio-cultural distance and country risks when evaluating the host country, study the competition and the attractiveness of the target market and have strategic motivations associated with their bank's competitive advantage, with the location of investment, the synergies and economies from their operations, and their products.

One interesting factor outcome is the formation of "location advantage", which consists of strategic configuration variables. This suggests that the configuration of the new venture is a strategy which is considered in banking. Location advantages such as low operating costs and favourable regulation, which have been the traditional motives for foreign investment (Tschoegl 1987; Sabi 1988), were dropped from the analysis. This finding, in conjunction with the non-significant effect of market responsive strategies on entry mode selection, suggests that banks evaluate market opportunities with a global rather than a local perspective.

Given the above empirical results, the objective of this study has been accomplished. This research has produced a framework of entry mode selection in banking which can explain the selection among all three foreign direct investment entry modes. In addition, the theoretical framework and some of the empirical findings can be generalised in any entry mode selection context because the established relationships are driven by four themes widely applied in entry mode selection literature: transaction costs analysis, barriers to entry, process model and configuration/coordination.

The conceptual framework, the empirical findings and the methodology employed have made a number of theoretical and practical contributions which are discussed in the next section.

7.3. CONTRIBUTIONS

This study has contributed to the literature on entry mode selection and on internationalization of banking, and on the managerial decisions about foreign market entries. The following discussion will highlight these contributions.

7.3.1. *Contribution to the literature on entry mode selection*

By incorporating the concepts of control and

resources, this study is the first to comprehensively integrate previous research on entry mode selection. These studies historically have been classified into two different streams, either control-focused or resource-focused. This approach sheds light on the inconsistent results reported due to the failure of previous studies to consider both concepts. This problems is particularly noticeable in the resource-driven stream. For example, product diversification has been linked to acquisitions due to their ability to provide resources to the entrant. However, acquisitions involve integration costs and may be avoided. These conflicting arguments may explain the confusing results reported.

Some studies which have attempted to integrate these two streams have not studied all three foreign direct investment (FDI) entry modes simultaneously (Gomes-Casseres 1989; Hennart 1991; Hennart and Park 1993). As a result, often they could not determine the appropriate entry mode. For example, Hennart and Park (1993) could not predict the effect of experience in selecting between acquisition and greenfield investment. This is because the themes examined have suggested that a joint venture should be selected which they did not consider.

This is the first time that all FDI entry modes have been systematically examined. The only study that has examined all FDI entry modes (Kogut and Singh 1988), has focused on cultural distance while controlling for other factors. Besides organizational difficulties no other

issues were examined. However, a number of studies have identified the need to address all FDI entry modes. For example, Madhok (1993), studying the selection of wholly-owned investments and joint ventures, has argued that in order to understand entry decisions better, acquisitions and greenfield investments should not be examined together as one entry mode but rather viewed separately.

The theoretical approach of this study is necessary to completely explain FDI entry mode selection. This is because considering control and resource requirements simultaneously can determine which mode is appropriate (for more details on this mechanism see section 3.3.1.3). To manage the integration of control and resource-driven research, a complete set of factors and themes were identified from the literature review, which were then employed in the most comprehensive entry mode selection framework developed so far. This framework fully explains entry mode selection in industries where foreign entry is limited to foreign direct investment.

This study has stressed the important role of entry mode selection in the firm's international expansion by linking this choice to the firm's strategies, its characteristics and the environment within which it operates. Six of the factors examined evaluate firm strategies whose implementation can be facilitated or constrained by the choice of entry route. The focus of previous studies on risks and not on strategic motivations

has resulted in the study of a limited number of strategic factors. Just recently Kim and Hwang (1992) have noted the need to balance these two perspectives.

The present study has employed themes such as barriers to entry and coordination/configuration, which have facilitated the study of the firm's strategic motivations. In addition, in achieving this balance Dunning's eclectic theory has been incorporated into the study of entry mode selection. This is the first time Dunning's eclectic theory has been viewed within an entry mode selection framework. However, this is necessary when FDI modes are examined, because this is a comprehensive model of foreign direct investment (for details see sections 2.3.3 and 3.2.2.2).

The use of diverse themes, like barriers to entry, transaction costs and Dunning' theory, has facilitated the study of factors which have not been investigated extensively in entry mode research despite their importance. These are: the responsiveness of firms to local opportunities, the configuration of a new venture with the firm's network and market competition. In addition, these themes advance the consideration of proprietary assets as sources of both competitive advantage and risks. Most of the entry studies have considered only the risk aspect of proprietary assets. In so doing, they have measured the existence of proprietary assets, which is not appropriate given the two dimensions of proprietary assets. For example, Hennart and Park (1993) have estimated the risks

associated with proprietary assets by measuring the investment in research and development.

The above discussion indicates that this study has conceptually clarified the framework in which entry mode decisions are made by exploring the effects of different groups of factors through a diversity of themes.

Testing of the theoretical framework of entry mode selection has yielded findings which should influence the future development of the entry selection field of study. Rejection of the two-stage model proposed in Chapter 4, suggests that managers do not consciously decide on a level of control and resources after having evaluated a new venture. However, this is a mechanism suggested by theoretical arguments on the choice of entry modes (Stopford and Wells 1972; Anderson and Gatignon 1986; Erramilli and Rao 1993). These studies have linked the evaluation of factors to the managers' desire for control or resources. Previous empirical studies have not tested this mechanism either because it was not convenient as Erramilli and Rao (1993) have argued, or because they have found, like this study, that empirically this model cannot be quantified. If the latter is true, then they should have reported these results and have given directions for further research.

Even though a two-stage mechanism is not appropriate for studying foreign entries, the final model has shown that managers' general preferences for control and

resources contribute significantly to the selection of entry modes. Previous studies have suggested that these preferences do influence entry mode selection. For example, Gomes-Casseres (1990) has argued that the entry into a foreign market will depend on whether the available entry routes are in accordance with firm policies. Despite this evidence, previous empirical studies of entry selection have not looked at these preferences when evaluating foreign ventures.

Another empirical contribution of this study is the direct measurement of managers' perceptions. Most of the previous studies on entry choice have used rough proxies to measure related factors. For example, Kogut and Singh (1988) have measured the transaction costs of the firm through the R&D and advertising expenditure of the industry. The difficulty in approximating some of these factors has prompted this study, like some of the recent studies on entry selection, to follow the difficult route of collecting data from managers who have made decisions about entry modes. The final factors were reliable and in line with the hypothesised factors. Given the appropriateness of this methodology for developing factors and the non-existence of standardised scales, these factors can become the basis for developing scales. For example, "desire for control" is reliable at 93% and has not previously been measured in entry mode selection. This issue will further discussed when the directions for future research are addressed.

Each industry has certain unique characteristics which result in specific firm requirements. High barriers to entry or the existence of significant proprietary assets can result in certain strategic requirements or perceptions about international business. For example, this study has shown that these characteristics result in bank preferences for certain levels of control and resource requirements. Studying empirically more than one industry may not be appropriate because factors affecting entry mode selection can be evaluated differently depending on industry priorities. For example, this study has argued that the significant effect of country risk-related factors on the choice of entry modes may not be generalizable in firms from industries which do have interests in risky countries. Brouthers (1995) has argued that entry mode selection must be investigated within firms with similar characteristics. However, most of the entry mode studies have looked at groups of dissimilar industries (Gatignon and Anderson 1988; Gomes-Casseres 1989; Kim and Hwang 1992). This is because there are not many multinationals in one industry and it is therefore difficult to collect a large number of cases. However, such as approach can result in confusing results. The inconclusive results of product diversification reported by entry mode studies could be attributed to this problem because diversification would require different resources in different industries. Despite the above difficulty, this study has managed to address one industry and show that results must be

carefully evaluated before projected in other settings.

Finally, this research has shed light on some of the confusing findings of previous studies. This is demonstrated in Table 7.1. Transaction costs are found in this study to be associated with the selection of greenfield investment. Studies examining the selection of wholly-owned investments and joint ventures have consistently found that transaction costs were related to wholly-owned investments. However, this may not be true because acquisitions involve organizational costs and should be regarded as inferior to greenfield investments. Hennart and Park (1993) have empirically supported this

Table 7.1. Clarifying some of the findings of previous studies

	RESULTS						
	Present study			Previous studies			
	GR	ACQ	JV	GR	ACQ	WO	JV
Transaction costs	+			+		+	
Diversification		+	+		+		+
Market attractiveness		+	+		+	+	
Synergies	+	+				+	
Country instability			+				+
Risks of restrictions			+				+
Economies	+	+					

Notes:
GR: Greenfield investment
ACQ: Acquisition
JV: Joint venture
A plus sign (+) under an entry mode indicates that this mode is positively related to the factor across the sign.

argument. Therefore, consolidating the results of empirical studies on entry selection, greenfield investment should be regarded as superior to acquisition and joint venture. The studies which found wholly-owned investments to be superior have not captured this relationship because they have not studied all three FDI modes as separate entities.

The evaluation of diversification in this study has shown that entry barriers are considered important and therefore, the resource providing modes of acquisition and joint venture are superior to greenfield investment. Previous studies have reported a variety of findings (see Table 3.4). However, the significant results suggest that the resource-related mode (either acquisition or joint venture) was selected. When these significant findings are placed in the context of all three FDI modes, they agree with the findings of this study.

Similarly, market attractiveness is found to be related to acquisition and joint venture, which is in line with the findings of the resource-driven stream of research that found acquisition to be superior to greenfield investment. This finding does not provide full support for the results of transaction cost-driven studies, which support the selection of wholly-owned investments. These result may therefore clarify the inconsistent findings reported by these two streams of research.

Besides providing clarification of confusing results, this study has confirmed previous findings with respect to the effects of synergies and country risks on the choice of

entry modes. Additionally, it has indicated the relationship between economies and entry modes, given that this factor has not previously been studied in an entry mode problem.

7.3.2. *Contributions to the literature on internationalization of banking*

The main contribution to the literature on the internationalization of banking is its extension to address systematically bank entry mode selection. This study has transferred to the banking literature knowledge gained from studies of the choice of entry in other industries. Given the comprehensive approach of this study, the banking literature on entry mode selection has thereby been enriched.

Furthermore, empirical testing of the effects of bank-specific factors on entry mode selection has indicated which factors are significant to banks among the large number of factors studied in different entry contexts. International strategic motivations are considered in entry decisions which confirm the trends that motivated this study. In addition, the findings indicate that managers have developed strong preferences for control and resources which may indicate their importance in facilitating bank strategies. These findings indicate that the literature on bank internationalization must address the motives of the individual bank (for a detailed discussion on this gap in

the literature see section 3.2.2).

Viewing its contribution from a general theoretical perspective, this study has provided the foundation for directing the literature on the internationalization of banking towards the study of the individual bank. Entry mode selection has not been addressed in the internationalization of banking because the research priorities of this literature have focused on the creation of the multinational bank and patterns of foreign investment (Brimmer and Dahl 1975; Aliber 1976; Grubel 1977). Due to this focus, most of the theoretical development has concentrated on the industry or the location but not on the firm. This orientation has acted as a barrier to the study of problems which focus on the firm. This piece of research has made a conscious effort to overcome this barrier by providing a paradigm of integration of the macro and meso-level theories on internationalization of banking with firm-focused theories on the internationalization of the firm and business strategy.

To achieve this consolidation, the application of Dunning's theory in banking has been integrated with theories like transaction cost analysis and coordination/configuration. The three requirements for bank foreign investment, ownership, internalization and location advantages, have been transformed into bank strategies since they are synonymous with the business strategy

concepts of competitive advantage, configuration and synergies (Dunning 1993), and have been linked to the bank's control requirements. Furthermore, Dunning's theory, being the integrator of many internationalization theories, has provided bank-specific variables which were used to operationalize some of the factors employed in entry mode selection.

In addition, this study has facilitated the application of resource-related themes in this industry. So far, research on bank internationalization has not recognised that banks compete in international markets and as such, pursue strategies which are resource-intensive. The application of barriers to entry themes has recognised that certain bank strategies require additional resources. For example, bank product diversification in a foreign market would require new product and business skills and strong image and distribution channels in order to compete effectively with incumbent banks.

Furthermore, this study has complemented the offensive rather than defensive approach of Dunning's theory by incorporating the risks of foreign investment. By applying transaction costs analysis, it has considered the risks associated with transferring and sharing of resources across country and organizational borders.

This exercise has indicated that it is possible to introduce firm-level theories in the literature on the internationalization of banking in order to investigate bank internationalization strategies. This issue is

becoming more and more important for banks in the light of the changes in the industry discussed in Chapter 3.

The reliable factors developed, competitive advantage, location advantage and synergies which operationalize Dunning's advantages, can be used to explain bank internalization decisions by either applying Dunning's theory or incorporating it into other theories.

Finally, this study has contributed to the better understanding of bank strategic motivations. The formation of reliable and meaningful factors incorporating bank strategies has confirmed some of the strategic priorities in banking. For example, the formation of a factor including configuration motives such as monitoring international competitors and accessing global funds, may indicate the global orientation of banks. In addition, this study has confirmed that bank managers are aware of their proprietary assets and the benefits and risks associated with them and consider them when making strategic decisions.

7.3.3. *Managerial contributions*

Bank managers are offered a systematic and comprehensive method for selecting foreign direct investment entry modes. The factors considered cover bank strategic motivations, country and market conditions and the bank's characteristics. This entry mode selection

framework is based on theoretical and empirical investigations of different entry settings and has been adjusted to banking characteristics. Bank managers have not been given such a framework before. Previous empirical models, besides being incomplete, have not reflected the conditions in banking. The most complete framework to date has been provided by Kim and Hwang (1992). However, this model did not study the resource requirements of the firm and accordingly did not incorporate important factors in entry mode selection, such as diversification and market-responsive strategies. In addition, their model did not examine all FDI options.

Empirical investigation has shown that bank managers place significant importance on their general preferences for control and resources when choosing foreign entry modes. Additionally, results suggest that these preferences should be considered along with venture-specific factors. This is because each entry has its own particular circumstances, which can be associated with the riskiness or the "distance" of the host country, market entry conditions, the firm's strategic motivations or the firm's characteristics.

This study has indicated which factors are significantly considered by managers when entry modes are selected (for details see the discussion of results in section 6.5.3). However, the non-significant factors should also be scrutinised because previous studies have reported

their association with entry decisions. For example, socio-cultural distance has been related to the selection of joint ventures. This study has attributed its inability to explain entry selection to competing scenarios. A bank should evaluate these possible scenarios and determine which of them apply to its case.

In addition, this study has indicated a number of trends in the industry which can help managers benchmark their international strategies with those of the average multinational bank. By studying entries on a global basis, a number of location strategies have emerged. For example, most of the foreign bank entries target Europe and originate from other European countries. This trend shows the strategic priorities of European banks in the context of a united Europe. In addition, a significant number of banks have entered emerging markets.

Furthermore, this study has indicated that the industry is becoming global. The significant consideration of network synergies, economies and strategic positioning shows that banks are pursuing strategies which do not focus on individual markets, but rather on the whole set of their international operations. This trend may suggest that most bank have dropped their traditional multi-domestic strategies (Porter 1986).

In addition to its contribution for bank managers, this research provides insights which are useful to any manager who makes decisions about entry mode selection. The

conceptualization of entry mode selection is general enough to apply in any entry context, therefore the factors considered in this model should be investigated in any entry context. However, managers should re-evaluate the strength of the reported relationships between factors and entry modes within the conditions of their industry. For example, the managers' motive for control and resources could be due to general preferences, or to the investigation of the venture or to both factors.

In summary, this study has contributed to both the theory and practice of entry mode selection decision making. The main contributions are the integration of the entry mode research and the extension of the literature on the internationalization of banking.

The next section will evaluate the limitations of this study. This exercise is necessary for assessing the actual contribution of this study.

7.4 LIMITATIONS OF THE RESEARCH

As with any piece of research, there are limitations associated with this study. The following discussion will address the limitations inherent in the research design and the proposed model.

7.4.1. *Research design limitations*

The decision to enter a foreign market is likely to be made by a group of senior managers rather than by an individual. It may be a questionable practice therefore, to collect data from one manager as a reflection of the bank's viewpoint (Philip 1981; John and Reve 1982). This problem is further extended by the post-hoc nature of this study. The respondent may not recall events, or may even, change events in order to feel more comfortable.

This problem is partially relieved by selecting the respondents carefully and considering recent foreign entries. In addition, the answers of two executives on the same entry in nine cases has been similar. Drawing on this result, one could argue more confidently that the decision-making team perceived the entry in a similar way as the manager who responded.

Another weakness of this study stems from the snapshot approach taken. Due to resource constraints this study was unable to adopt a longitudinal approach by examining entry mode selection over an extended period. A major drawback of the cross-sectional approach, is that it cannot follow changes over time. However, the choice of an entry mode could change over time. For example, a bank could start with a joint venture and then acquire its partner (Buckley et al. 1992). This shift in entry mode could be decided before the initial entry mode selection and thus reflect in the executive's responses.

In addition, a cross-sectional study cannot establish causal relationships between independent and dependent variables. One can infer the extent to which changes in factor values are related to changes in entry mode selection. However, the logit results do not necessarily prove that factors are the causes of the selection of entry modes.

The majority of the banks in the sample are large. This is not surprising because bank multinationality requires large size (Yiannopulos 1983). Due to this sample characteristic, results should be generalised with caution in settings where multinationals are not large. Size may influence managers to overestimate the resources of the multinational and underestimate risk. As a result, barriers to foreign entry may be overlooked. In addition, investment risk may not be considered to be important. These perceptions may bias entry decisions. However, this limitation should not be considered a major weakness because most multinationals are large.

In addition, discussion of the results in Chapter 6 has indicated that some significant relationships between factors and entry modes were reflecting characteristics of banks, such as their investment in emerging markets, their information intensive nature and the synergies that exist within their network of operations. These relationships cannot be generalised to any entry mode context without scrutiny.

7.4.2. *Model limitations*

The decision model proposed is based on a few implicit operational assumptions. Even though it does control for country regulation which affects entry mode selection, it does assume that the appropriate partner or acquisition target can be found. However, given that the bank proceeds with an entry mode, this route should be at least satisfactory if not ideal, so that it is reasonable to believe that the factors examined do have an effect on entry mode selection.

Another assumption of the model is that the firm and environment-specific factors do not interact among themselves. Even though this is the general approach of entry mode selection research, a number of studies have shown that there are factors which are related. For example, Agarwal and Ramaswami (1992) have approximated the competitive advantage of the firm with its size. Similarly, Erramilli (1991) has found a correlation between the firm's size and its experience. This study has made this assumption because its focus is on the choice of entry mode, rather than on the factors that determine it. Analysis in Chapter 5 has shown that the relationships among factors are not strong enough to affect the results of this study (for details see section 5.8).

The foregoing discussion indicates that these limitations are inherent in the nature of this type of

research. Nevertheless, measures were taken to limit their effect on the results of this study. This, in conjunction with the broad contribution of this study suggests that these limitations cannot down-play the benefits from this piece of research.

Drawing on experiences accumulated from the process of completing this study, in the next section, directions for future research will be suggested.

7.5. DIRECTIONS FOR FUTURE RESEARCH

Exploratory research opens more doors than it closes. As the study was progressing more and more areas of investigation were highlighted. These issues, six of which are listed below, lend themselves to further research.

First, can the model proposed in this study be a universally applicable concept? Can we generalise across different sizes of companies? Across industries? A number of studies including this one, have investigated large firms (Stopford and Wells 1972; Gatignon and Anderson 1988; Gomes-Casseres 1989). This is to be expected, because foreign investment requires resources which small firms do not have. However, the opening of markets to form integrated regional economic regimes like the Pacific Rim, should encourage more firms to explore opportunities in foreign markets. It might be necessary, therefore, to investigate the model proposed by this study in smaller firms.

In addition, this model should be tested in other industries, particularly in industries which are not exposed to high transaction costs and/or high barriers to entry such as utilities, retailing and consumer goods. This exercise will indicate whether the themes and factors are general enough to capture different entry mode scenario.

Furthermore, this study has argued that bank managers' control and resource motives depend on previous experiences and policies. Furthermore, it has argued that the strength of these general preferences may vary in other settings depending on how important these motives are perceived to be. So what happens when these motives are not strong? Do firm and environment-specific factors have an effect on these motives? If this is the case, then a more general model should be investigated where the venture-related factors are linked to entry modes and to motives for control and resources.

This lead us to the second issue. To examine these complicated sets of relationships, techniques like LISREL or simultaneous equations should be applied. Indeed, as we learn more about entry mode selection it becomes evident that this problem is more complicated than traditionally models recognised. Factors are not mutually exclusive, and the actual mode adopted is constrained by regulation, the availability of partners and many other factors. To reflect all these entities and their relationships in a model, the use of the traditional logit analysis may not be adequate.

The third issue is related to the operationalization of the factors related to entry mode selection. Recent studies have questioned the use of single proxy variables and have attempted to measure managers' perceptions directly which is a better approach (for more details see section 4.2). Measuring the factors in this study, however, has proved a difficult task. This is because there are no proven scales in entry mode literature. It is suggested, therefore, that more emphasis is placed on developing standard measures of entry-related factors. This will ensure that future findings are comparable and more meaningful. In addition, given the complicated nature of strategic decision making, it might be necessary to study the behaviour of managers, not just their perceptions.

This study has focused on the selection of entry modes which is driven by the managers' control and resources requirements. The ultimate objective of the decision-makers, however, is to choose the highest performing entry mode. The question that should be answered, therefore, is whether the entry mode selection has an effect on the performance of the venture and most importantly, which entry mode is more efficient and under what conditions. If, for example, conditions suggest that a joint venture is the appropriate entry route but instead an acquisition is selected, would this decision have an effect on the performance of the ventures?

Most entry mode performance studies have examined only one entry route usually joint ventures (Dang 1977; Geringer and Hebert 1989; Chowdhury 1992). The few studies that have compared the performance of two or more entry modes have not controlled for the environment in which these modes were selected (Li and Guisinger 1991; Woodcock et al. 1994). To address this issue, a framework should be established which considers the factors related to entry mode selection, the entry modes and their performance.

Another issue is related to the dynamic nature of entry modes. The approach taken in this study is static, and does not address the transition of one entry mode to another. Some studies on entry mode selection have indicated that joint ventures are experiments which, if successful, will be converted to wholly-owned subsidiaries (Harrigan 1987; Geringer and Hebert 1989). In addition, Buckley et al. (1992) have discussed shifts from acquisitions to greenfield investments and vice versa. An interesting area of future research will be to examine such switching behaviour and its optimal timing. To study this problem, it might be fruitful to apply the themes adopted in this study.

The last suggestion is about a future direction in banking. This study has shown that firm-specific issues can be studied in banking. It is time, therefore, to direct research towards the general question of how banks compete

in international markets. Besides entry mode selection, other problems should be studied such as the market servicing strategies of banks associated with distribution, product promotions etc, or the management of their dispersed activities. To achieve this, as this study has shown, more firm-focused theories have to be applied and integrated with existing bank theory.

APPENDIX A: THE SURVEY INSTRUMENT

THE FOREIGN MARKET ENTRY BEHAVIOUR OF INTERNATIONAL BANKS

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* *All information will be kept* ***strictly confidential***

Please read these instructions carefully before completing the questionnaire.

The purpose of this study is to explore how banks make strategic choices regarding ownership and establishment of their foreign ventures.

Please select one recent (i.e. within the last 8 years) foreign venture of your bank in which you were involved (or you are familiar) with the process of deciding about this venture. The venture may be of any size and in any financial services area but must entail the commitment of resources via either **the acquisition of a majority or minority stake in a foreign firm or the setting up of a new foreign venture (with or without partners)**. Please do not use the establishment of a representative office since the resource commitment is generally too low to be of interest in this study.

If you were not involved in such a venture, we would be grateful if you could pass this questionnaire to a colleague who has such experience.

While we are interested in all methods of establishment identified above, ventures established through minority joint ventures, minority acquisitions or majority acquisitions are of particular importance to this study.

Please restrict your answers to the venture you have selected. Through out the questionnaire please indicate your response with a tick or a circle as appropriate unless otherwise directed. If a question does not apply to your bank, please write N/A in the right hand margin.

Section 1. GENERAL INFORMATION ABOUT THE FOREIGN VENTURE

1. For the venture which you have chosen to consider, in which year was this venture made? _____

2. In which country was this venture? _____

3. Please indicate which customer segment was the main target of this venture.

[ ] Retail or Small businesses

[ ] Medium size corporations

[ ] Large corporations or Wholesale

[ ] Other (please specify) _____

4. Please indicate in which financial services area(s) this investment was made.

[ ] Deposit related services

[ ] Loan related services

[ ] Securities and brokerage

[ ] Interbank services

[ ] International services

[ ] Investment management

[ ] Insurance services

[ ] Other (please specify) _____

5. How was the venture organised?

[ ] Branch

[ ] Subsidiary

[ ] Other(please specify) _____

6. Please read the following definitions.

A New or Joint Venture is defined as: The creation of a new company either wholly owned (new venture), or with partners (joint venture) and may fall into one of the following categories:

Category		Means that your bank contributed:
1. Wholly Owned	=	more than 95% of the start up capital
2. Majority partner	=	between 50.1% and 95% of the start up capital
3. 50% partner	=	50% of the start up capital
4. Minority partner	=	less than 50% of the start up capital

An acquisition is defined as: Investment in or purchase of an existing company which may fall into one of the following categories:

Category		Means that your bank acquired:
5. Full	=	more than 95% of the voting stock
6. Majority	=	between 50.1% and 95% of the voting stock
7. Equal	=	50% of the voting stock
8. Minority	=	less than 50% of the voting stock

Using the above definitions, please identify the entry mode that most closely matches the situation in each of the following cases by writing the appropriate number in the space provided. If none of the definitions apply please write in the mode of entry adopted.

6a. Desired when the management team was evaluating this venture _____

6b. Achieved at the time of the investment _____

6c. Status of the venture today _____

7. Did host country regulation restrict your bank from pursuing the desired mode of entry? [ ] Yes [ ] No

8. Please indicate the percentage of total shares of the venture owned by your bank at the time of the investment: _____%

9. Excluding your bank, what percentage did the largest shareholder own at the time of the investment? _____%

10. Including your bank, approximately how many shareholders/partners held at least 5% of the shares at the time of the investment? _____

11. If the venture was not an acquisition, how many local partners participated? _____

Section:2. MOTIVES AND PERCEPTIONS PRIOR TO THE INVESTMENT

	None	Low	Medium	High	Full
1. Prior to the investment, how would you rate your bank's desired level of control of the venture?	1	2	3	4	5

2. For each of the following areas please indicate the level of control that the management team was prepared to forego if had it been necessary.

	Level of Control Prepared to Forego				
	None	Low	Medium	High	Full
1. Marketing	1	2	3	4	5
2. Account relationships	1	2	3	4	5
3. Operations	1	2	3	4	5
4. Information technology	1	2	3	4	5
5. Risk management	1	2	3	4	5
6. Management selection	1	2	3	4	5
7. Capital expenditure	1	2	3	4	5
8. Dividends policy	1	2	3	4	5
9. Re-investment of earnings	1	2	3	4	5

3. At the time of the investment what level of control did your bank achieve in each of the following areas?

	Level of Control Achieved				
	None	Low	Medium	High	Full
1. Marketing	1	2	3	4	5
2. Account relationships	1	2	3	4	5
3. Operations	1	2	3	4	5
4. Information technology	1	2	3	4	5
5. Risk management	1	2	3	4	5
6. Management selection	1	2	3	4	5
7. Capital expenditure	1	2	3	4	5
8. Dividends policy	1	2	3	4	5
9. Re-investment of earnings	1	2	3	4	5

	Very Low						Very High
4. Before making the investment, how much importance did the management team attach on overcoming barriers to rapid capture of market share?	1	2	3	4	5	6	7

5. Before making the investment, what sort of difficulty did each of the following pose to the rapid access of market share?

	Low Difficulty						*High Difficulty*
1. The lack of new business skills important to the venture	1	2	3	4	5	6	7
2. The lack of an established customer base	1	2	3	4	5	6	7
3. The lack of a strong local image	1	2	3	4	5	6	7
4. The lack of an established branch network	1	2	3	4	5	6	7
5. The lack of a critical mass	1	2	3	4	5	6	7

6. How important was each of the following motives in selecting and deciding on this particular venture.

	Of Little Importance						*Of Critical Importance*
1. Improving service to existing customers from home who moved in the host country	1	2	3	4	5	6	7
2. Exploiting potential economies of scale	1	2	3	4	5	6	7
3. Increasing access to global funds	1	2	3	4	5	6	7
4. Accessing deposits in local currency	1	2	3	4	5	6	7
5. Getting closer to key financial institutions	1	2	3	4	5	6	7
6. Establishing a strategic outpost for future expansion	1	2	3	4	5	6	7
7. Pursuing a local opportunity	1	2	3	4	5	6	7
8. Building on the bank's competitive advantage	1	2	3	4	5	6	7
9. Better monitoring of international competitors	1	2	3	4	5	6	7
10. Share cost and risk of market entry/development	1	2	3	4	5	6	7
11. Operating in a favourable regulatory/taxation environment	1	2	3	4	5	6	7
12. Capitalizing on the bank's knowledge of the target market	1	2	3	4	5	6	7
13. Supporting the bank's global strategy	1	2	3	4	5	6	7
14. Taking advantage of lower operating costs	1	2	3	4	5	6	7
15. Learning new skills essential for the bank	1	2	3	4	5	6	7
16. Attacking international competitors	1	2	3	4	5	6	7
17. Taking advantage of the bank's reputation in the target market	1	2	3	4	5	6	7
18. Following the moves of direct competitors	1	2	3	4	5	6	7
19. Retaliating to a competitor's entry in your home market	1	2	3	4	5	6	7
20. Expanding on an existing alliance with a bank	1	2	3	4	5	6	7
21. Capitalizing on the bank's marketing skills	1	2	3	4	5	6	7
22. Exploiting potential economies of scope	1	2	3	4	5	6	7
23. Bypassing host country regulation	1	2	3	4	5	6	7
24. Others (please specify)							
_____	1	2	3	4	5	6	7
_____	1	2	3	4	5	6	7

7. Before making the investment, how did the management team rate each of the following "host country" factors?

	Very Low						*Very High*
1. Likelihood of government restrictions on the ownership and/or operations of the venture	1	2	3	4	5	6	7
2. Political stability	1	2	3	4	5	6	7
3. Stability of currency	1	2	3	4	5	6	7
4. Possibility of price controls	1	2	3	4	5	6	7
5. Possibility of restrictions on the repatriation of income	1	2	3	4	5	6	7
6. Economic stability	1	2	3	4	5	6	7
7. Barriers created by language differences	1	2	3	4	5	6	7

	Very Different						Very Similar
8. National culture	1	2	3	4	5	6	7
9. Economic system	1	2	3	4	5	6	7
10. Business practices	1	2	3	4	5	6	7
11. Legal system	1	2	3	4	5	6	7
12. Political system	1	2	3	4	5	6	7

8. Before making the investment, how did the management team rate each of the following target market factors?

	Very Low						*Very High*
1. Total market size	1	2	3	4	5	6	7
2. Short-term market growth	1	2	3	4	5	6	7
3. Initial profit margins	1	2	3	4	5	6	7
4. Long-term market growth	1	2	3	4	5	6	7
5. Prospects for long-term profits	1	2	3	4	5	6	7
6. Intensity of competition	1	2	3	4	5	6	7
7. Danger of a future increase in competition	1	2	3	4	5	6	7
8. Stability of competitors' market share	1	2	3	4	5	6	7
9. Concentration of market share into a a few competitors	1	2	3	4	5	6	7
10. Market share of state-owned competitors	1	2	3	4	5	6	7
11. Need for a wide product line	1	2	3	4	5	6	7
12. Need for adapting the products to local tastes	1	2	3	4	5	6	7
13. Need for advertising support to the products	1	2	3	4	5	6	7

9. Before making the investment, to what degree did the management team expect to gain benefits from the sharing and flow of resources among your bank's existing operations and the new venture in each of the following areas?

	Very Low Synergy						*Very High Synergy*
1. Sharing know-how	1	2	3	4	5	6	7
2. Sharing investments	1	2	3	4	5	6	7
3. Sharing commercial intelligence	1	2	3	4	5	6	7
4. Global asset-liability management	1	2	3	4	5	6	7
5. Efficient intrabank fund transfers	1	2	3	4	5	6	7
6. Efficient account management	1	2	3	4	5	6	7
7. Reducing earnings variability	1	2	3	4	5	6	7

10. At the time of the investment, how did the following compare to your bank's total capital, skills, or core business at the time?

Compared to my bank,	*Very Low*						*Very High*
1. Total capital invested by all parties involved in the venture was	1	2	3	4	5	6	7
2. Management skills committed by all parties involved in the venture were	1	2	3	4	5	6	7
3. Similarity of the venture's core products was	1	2	3	4	5	6	7
4. Similarity of the venture's core customers was	1	2	3	4	5	6	7

Section 3. EVALUATION OF INTANGIBLE RESOURCES

The term "intangible resources" refers to assets, such as, reputation, information about customers and trade secrets, and to skills such as employee know-how and organizational procedures. This intangible nature poses some problems and difficulties in transferring and maintaining these resources.

1. Before making the investment, how did the management team evaluate the nature of the bank's intangible resources?

	Very Low						*Very High*
1. Degree of service/product customization required to service your clients adequately	1	2	3	4	5	6	7
2. Ease with which your bank's skills could be taught or transferred	1	2	3	4	5	6	7
3. Ease with which your bank's intangible resources (especially information) could be misappropriated or dissipated	1	2	3	4	5	6	7
4. Ease with which your bank's service quality standards could be duplicated and maintained	1	2	3	4	5	6	7
5. Ease with which potential affiliates/partners might benefit unfairly from your bank's intangible resources	1	2	3	4	5	6	7

Section 4. GENERAL INFORMATION

1. How would you rate each of the following?

	Very Low						Very High
1. Profitability of the venture to date	1	2	3	4	5	6	7
2. Business growth of the venture to date	1	2	3	4	5	6	7
3. Degree to which the initial objectives have been met to date	1	2	3	4	5	6	7
4. Overall performance of the venture to date	1	2	3	4	5	6	7
5. Experience in doing business in the host country prior to this venture	1	2	3	4	5	6	7
6. Experience in other foreign markets prior to this venture	1	2	3	4	5	6	7
7. Experience with teaching your skills to partners/affiliates prior to this venture	1	2	3	4	5	6	7
8. Degree of coordination exercised from head office to assure efficient sharing and flow of resources among your bank's operations prior to this venture	1	2	3	4	5	6	7

2. At the time of the investment

1. My bank was headquartered in _____ (country)
2. The total capital of my bank (worldwide) was: US$_____
3. The number of employees of my bank (worldwide) was: _____
4. The percentage of my bank's total income generated overseas was: _____%
5. My bank had a policy requiring full control over its foreign ventures [ ] TRUE [ ] FALSE

3. Before making the investment, approximately,

1. In how many foreign countries did your bank have operations? _____
2. For how many years was your bank present in foreign markets? _____
3. For how many years was your bank present in the host country? _____

Your current job title: _____

Your job title at the time of the investment: _____

Please list any comments you may have: _____

_____

_____

Thank you very much for your time and cooperation.

If you would like a summary of the findings please write your name and address on the back of the enclosed envelope. To protect your confidentiality, your identification will be kept separate from the questionnaire. In case that you have lost or misplaced the envelope, please send the questionnaire at the address displayed at the front page of the questionnaire.

APPENDIX B: THE COVER LETTER

January 25, 1995

Bank Banker
Director and General Manager
ABC Bank
100 Bank Street
Bank City
Bankland

Dear Mr Banker,

As a Senior Executive in an international bank you may well be aware of the recent rapid growth of foreign ventures within the banking industry and the failure of a number of such ventures. Further, you may recognise that a poor fit between a foreign venture and the bank's environment and strategies can result in failure of the venture.

As a part of a major international study of how banks enter foreign markets, Professor Andrew Pettigrew and I are attempting to model the critical factors affecting banks' successful entry into foreign financial services markets and to determine under what circumstances each mode of entry is most appropriate.

The attached questionnaire seeks to elicit information about a single foreign venture from each of 600 Senior Bank Executives around the world and takes about 20 minutes to complete. As an incentive for your participation we are quite happy to send you a summary of our findings which we anticipate will have a great deal of practical value, and we would be equally happy to answer any questions you may have.

May I request, therefore, that you complete the attached questionnaire and return it in the envelop provided. Please be assured that even though the questionnaire asks for opinions rather than specific details, it will still be held in the strictest possible confidence.

If for any reason can not participate in this study I would be grateful if you could send the questionnaire to a colleague who was involved (or is familiar) with the process of deciding on a particular foreign venture of your bank.

I would truly appreciate it if you could return the completed questionnaire by February 15, 1995. If you have any questions please do not hesitate to conduct me.

Thank you very much for your time and effort.

Yours sincerely

Andreas Petrou
Project Coordinator

APPENDIX C: THE REMINDER LETTER

February 17, 1995

Bank Banker
Director and General Manager
ABC Banking Group
100 Bank Street
Bank City
Bankland

Dear Mr Banker,

Four weeks ago an important research questionnaire was mailed to you seeking your participation in an international study on what determines banks' successful entry in foreign financial services markets. If you have already completed and returned the questionnaire please accept our sincere thanks. If not, please do so today.

Being one of a select group of Senior Bank Executives who were asked to participate in this study, your feedback is very important. If you send in your questionnaire you will receive a complete summary of our findings which we anticipate will be of great value to your bank. Please note, the questionnaire takes no more than 20 minutes to complete.

If by chance you did not receive the questionnaire or it got misplaced please call us now at (44)-203-523914 and we will send you a replacement today.

We appreciate your participation. Thank you very much.

Sincerely,

Andreas Petrou
Project Coordinator

APPENDIX D. THE FINAL FACTORS RESULTED FROM THE ANALYSIS

Variable	Factor Loadings		
	Factor 1	Factor 2	Factor 3
Control prepared to forego in management selection	.885		
Control prepared to forego in investment of earnings	.862		
Control prepared to forego in capital expenditure	.831		
Control prepared to forego in risk management	.802		
Control prepared to forego in account relationships	.778		
Control prepared to forego in dividends policy	.767		
Control prepared to forego in marketing	.735		
Desired level of control	.728		
Control prepared to forego in operations	.720		
Control prepared to forego in information technology	.696		
Business practices		.859	
National culture		.795	
Political system		.791	
Economic system		.775	
Legal system		.744	
Barriers created by language differences		.516	
Difficulty that the lack of critical mass could pose on the rapid access of market share			.817
Difficulty that the lack of a strong local image could pose on the rapid access of market share			.776
Difficulty that the lack of an established customer base could pose on the rapid access of market share			.774
Difficulty that the lack of an established branch network could pose on the rapid access of market share			.749
Eigenvalue	7.55	5.99	4.76
% of variance	14.0	11.1	8.8
Alpha coefficient	.928	.879	.815
Suggested name	Desire for Control	Sociocultural Distance	Need for complementary resources

Variable	Factor Loadings			
	Factor 4	Factor 5	Factor 6	Factor 7
Expected benefits from sharing investments	.740			
Expected benefits from global asset liability management	.722			
Expected benefits from sharing commercial intelligence	.675			
Expected benefits from efficient account management	.660			
Expected benefits from intrabank fund transfers	.606			
Expected benefits from reducing earnings variability	.602			
Political instability		.817		
Economic instability		.813		
Instability of currency		.767		
Possibility of restrictions on the repatriation of income			.870	
Possibility of price controls			.763	
Likelihood of government restrictions on the ownership and/or operations of the venture			.747	
Importance of getting closer to key financial institutions				.753
Importance of better monitoring international competitors				.742
Importance of learning new skills essential for the bank				.662
Importance of increasing access to global funds				.610
Eigenvalue	3.84	2.68	2.32	2.01
% of variance	7.1	5.0	4.3	3.7
Alpha coefficient	.812	.805	.870	.724
Suggested name	Synergies	Country Instability	Risk of Restrictions	Location Advantage

Variable	Factor Loadings			
	Factor 8	Factor 9	Factor 10	Factor 11
Need for a wide product line	.809			
Need for advertising support to the products	.761			
Need for adapting the products to local tastes	.725			
Importance of capitalizing on the bank's knowledge of the target market		.749		
Importance of taking advantage of the bank's reputation in the target market		.709		
Importance of capitalizing on the bank's marketing skills		.708		
Similarity of the venture's core customers to the banks core customers			.846	
Similarity of the venture's core products to the banks core products			.830	
Initial profit margins				.756
Short-term market growth				.691
Total market size				.661
Eigenvalue	1.88	1.56	1.52	1.37
% of variance	3.5	2.9	2.8	2.5
Alpha coefficient	.750	.688	.838	.655
Suggested name	Market Responsiveness	Competitive Advantage	Diversification	Market Attractiveness

Variable	Factor Loadings		
	Factor 12	Factor 13	Factor 14
Danger of future increase in competition	.817		
Intensity of competition	.800		
Stability of a competitors market share	.782		
Ease with which potential affiliates/partners might benefit unfairly from your bank's intangible resources		.766	
Ease with which your bank's skills could be taught or transferred		.722	
Ease with which your bank's intangible resources could be misappropriated or dissipated		.697	
Importance of exploiting potential economies of scope			.780
Importance of exploiting economies of scale			.702
Eigenvalue	1.34	1.27	1.16
% of variance	2.5	2.4	2.2
Alpha coefficient	.748	.641	.590
Suggested name	Competition	Transaction Costs	Economies

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