International Market Entry Mode – A Systematic Literature Review

Introduction

This paper systematically examines the academic literature on international market entry mode (hereafter MEM). Ever since the first issue of the first volume of the Journal of Strategic Marketing this has been a topic of much discussion and research from scholars interested in strategic marketing issues here and elsewhere (Gannon, M, 1993; Crick and Crick, 2013).

This paper is divided into three main sections. The first section provides MEM definitions and conceptualisations. The second section critically reviews a series of key *Internationalisation Theories* that have emerged *from* and been applied *to* a firm's MEM choice. These are; Transaction Cost Approach, Institutional Theory, the Eclectic Paradigm, the Uppsala Internationalisation Model and the Resource Based View. The third section summarises the current position and highlights three key gaps in the MEM literature, these being; a lack of studies on SME market entry, a lack of insight into market entry decision making processes and a too little integrative work that brings together related literature strands. The paper is enhanced by the inclusion of a number of tables that present an overview of key and well-cited conceptual and empirical work, listing themes, key concepts and findings and the location, industrial sector and other methodological details.

MEM Concepts, Definitions and Perspectives

The question of how firms enter and operate in foreign markets has been a consistent and persistent topic in business research generally and strategic marketing literature specifically for decades (Crick and Crick, 2015; Hennart and Slangen, 2015, Canabal and White, 2008; Johansson and Vahlne, 1977, Johansson and Wiedersheim-Paul, 1975). Why is this? One fundamentally important reason is that it is widely recognized that strategic success and failure is principally determined by which entry mode is chosen and enacted (Charles et al, 2015; Agnal and Chetty, 2007; Brouthers, 2013/2002; Tse et al., 1997; Erramilli and Rao, 1993, Root, 1987; Anderson and Gatignon, 1986). Additionally, international market entry is a highly observable form of international expansion (Gerrath et al, 2013; Benito et al., 2009; Ragland et al, 2015).

Given the eclectic nature of MEM, and the diversity and variety of investigators and investigations a number of different and inconsistent [perhaps incompatible?] definitions exist (Morschett et al., 2010; Canabal and White, 2008). Johanson and Wiedersheim-Paul (1975: 306) refer to entry modes as *"the development of operations in individual countries"*. Root (1977:5) proposes a more specific definition by considering a mode *"an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management or other resources into a foreign country."*

Anderson and Gatignon (1986) consider an entry mode a governance structure that allows a firm to exercise control over foreign operations whilst Hill et al. (1990) defines the phenomenon as a way of organising the business activities in a foreign country. Sharma and Erramilli (2004: 2) define an entry mode as *"a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only marketing* *operations (i.e. via export modes) or both production and marketing operations there by itself or in a partnership with others (contractual modes, joint venture, wholly owned operations).”* Many MEM scholars (e.g. Olejnik & Swoboda, 2012; Nisar et al., 2012; Ojala & Tyrväinen, 2007; Brouthers & Nakos, 2004) predominantly treat entry mode as a selection from several specific and discrete alternatives, investigating MEM choice based on the categorisation of modes prior to fieldwork.

An alternative viewpoint (Hennart and Slangen, 2015; Shaver, 2013; Canabal and White, 2008; Zhao et al., 2004) is that both external and internal (firm-specific) antecedents and determinants affect modal outcome, and should therefore be the focus of study (Benito et al, 2009). *External* antecedents and determinants include (national) culture, cultural difference, market attractiveness, environmental uncertainty, legal environment. *Internal* antecedents and determinants include control, international experience, as well as assets and asset specificity. Based on these premises, researchers in the field have provided a wealth of explanations of how certain factors *“encourage or discourage a particular mode”* (Root, 1994: 8) and accumulated new theoretical knowledge.

Table 1 provides an overview of significant scholarly contributions taking such a antecedents/determinant perspective.

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Such normative studies, however, commonly neglect how the actual entry mode decisions are made in firms, and thus do not explicitly investigate the associated decision making processes, studies by Chen (2008) and Buckley et al. (2007) being noticeable exceptions. Decision making processes are affected by the characteristics of the key decision makers and/or their teams (Dean and Sharfman, 1993); and scholars (Hennart and Slangen, 2015; Canabal and White, 2008) call for more research that explicitly focuses on the entry mode decision making processes within firms.

The majority of MEM literature though commonly focuses on an examination of mode choice. Shaver (2013) makes the important point that too much research artificially constrains the range of entry modes examined, thereby limiting its scope and ignoring the broader and more holistic broader research issues. In particular, these scholars use comparative dependent variables (modal outcomes) such as Wholly Owned Subsidiary versus Joint Venture, Acquisitions versus Joint Venture, Export versus Foreign Direct investment, as well as contract versus Equity Joint Venture (Morschett et al., 2010) or Acquisitions over Greenfield (Chen, 2008; Slangen and Hennart, 2008) thus reflecting the identified predominant explanatory focus and emphasis on statistical measurement in MEM research.

Alongside the initial theoretical understanding of entry mode choice that is made between clearly defined and differentiated alternatives (Benito et al., 2009) researchers adopt very different classification criteria and variables in order to differentiate and determine the entry mode. Based on the variables of control, commitment and risk, Anderson and Gatignon (1986) identify 17 entry mode categories. Hill et al. (1990) went on to reduce those categories to three distinct types of entry modes: Licensing/Franchising, Joint Venture and Wholly Owned Subsidiary, a schema that only represents a singular and static perspective on entry modes. Root (1994) differentiates Export, Contractual as well as Equity modes. Others (Blomstermo et al., 2006; Sharma and Blomstermo, 2003; Zahra et al., 2000; Argawal and Ramaswami,

1992) discuss entry modes in each of these categories according to the continuum of low- vs high-involvement and commitment.

Osland et al. (2001) propose to differentiate entry modes according to the three characteristics of resource commitment, level of control and level of (technology) risk. These three key characteristics are highly correlated, as increased control is considered to lead to lower technology risk, and control is highly associated with a need for resource commitment (Woodcock et al.,1994). According to Kumar and Subramaniam (1997) as well as Pan and Tse (2000), entry modes should be distinguished between *non-equity modes* (such as exporting or other contractual agreements and *equity modes* (wholly owned subsidiary or joint venture). Zhao et al. (2004) differ between ownership-based entry modes (OBEs) and contract based modes (CBMs).

More recently, Brouthers and Hennart (2007) classified entry modes into two broad categories, namely 'Contracts' and 'Equity' and argued that *"the main difference in entry mode lies in the method chosen to remunerate input providers*." This definition seems to be preoccupied with the mode's financial and contractual implications while in turn ignoring important aspects of *'how'* business is really conducted in foreign markets, and hence how the various stages of the value chain are organised accordingly.

The theoretical views within this prior set of work exclude the notions of mode combinations (mixed modes), inter-mode changes as well as potential modifications and adjustments over time. Research has now moved away from an over-emphasis on categorisation, attempting to reduce the discrepancy between theory and practice whilst being more accepting of a less clear and distinct business reality.

For example, moving away from a concentration on singular modes, Benito et al.'s (2009: 1458) definition of foreign operations modes as the *"organizational arrangements that a company uses to conduct international business activities"* relating *"to the activities performed in particular locations at a given time"* advocates a less stringent but pluralistic view on entry modes. This definition allows for the fact that firms in some cases combine operation modes for the same business activities and in the same host market, in order correspond and react to specific and complex value chain characteristics and requirements. It differs from the unitary entry mode focus inherent in the major part of the existing MEM literature, as it allows for *"multiple modes in various types of combinations"* (Benito et al., 2009: 1458).

Empirical evidence confirms that firms use 'package modes', by combining sales subsidiaries with distribution arrangements with a middle man (Petersen et al., 2001). Firms are seen to incrementally change the modes of operation by adding new modes to existing ones, which Petersen and Welch (2002) refer to as 'mode combinations'. Research by Deligonul and Cavusgil (2006) reports that the use of a distribution partner is associated with substantial investments until these partners are partially internalised and operate as quasi sales subsidiaries. Findings by Welch et al. (2007) also suggest that various modes could be used simultaneously in one particular market – usually across different activities, but in some cases, for the same activity. Multiple modes might well be complementary, with the modes supporting each other in an overall market penetration strategy (Petersen et al, 2008)

A further research theme is consideration of the typical internationalisation pathways of SMEs (Kontinen and Ojala, 2012/2010; Boter and Holquist, 1996; Jones, 2001/1999; Bell, 1995) and the respective entry mode patterns (choices) of these firms. These researchers identify entry mode patterns in relation with the firms' increasing engagement with international markets, but do not address the question of *'how'* the entry mode decisions are actually made in those firms, and '*how'* the entry mode decision making processes are structured accordingly. Jones (2001; 1999), referring to entry modes as *'cross border links'*, constructs these links according to three dimensions, namely *'directional'*, *'international'* and *'functional/value chain'.*

Moving away from this pre-categorisation of entry modes prior to fieldwork, Spence's (2003) and Crick and Spence's (2005) investigation of internationalising high-tech oriented SMEs broadens and loosens the entry mode conception by determining the modes based on the informants' narrated personal experiences during the interviews. Such conceptualisations and methodological approaches are replicated in subsequent exploratory research projects in similar research settings (Crick and Crick, 2014; Spence, 2010; Spence and Crick, 2009). This exploratory approach and move away from 'pre-categorisation' enhance the possibility for flexibility in terms of defining and depicting the actual recalled foreign market entry, hence the *'real'* and precise organisation of foreign operations based on the individual narratives of the informants. These scholars, however, use a broader concept in their investigations of the development of foreign operations, namely *'internationalisation strategies'*, and only offer a less specific research focus, as entry mode decision making and respective choice can be considered only one outcome of broad investigations, rather than the explicit research rationale.

Internationalisation Theories Explaining Entry Mode Choice

The hitherto entry mode conceptualisations and categorisations discussed are embedded in different theoretical assumptions and underpinnings. As a consequence, the following section discusses key *Internationalisation Theories* that seek to explain a firm's entry mode choice. Critically reviewed and discussed are the theoretical perspectives of *'Transaction cost approaches'*, *'Institutional theory'*, *'Eclectic Paradigm'*, *'Uppsala Internationalisation Model'* and the *'Resource Based View'*.

Transaction Cost Approach

Transaction Cost Economics, (TCE), sometimes referred to as Transaction Cost Analysis is the most commonly adopted and applied *Internationalisation Theory* in MEM studies (Canabal and White, 2008).*"TCE has served as the overriding perspective for theorizing entry mode choice and, accordingly, transaction-cost-related covariates have been recognized as major determinants of entry mode decisions."* (Zhao et al., 2004: 525).

Underlying TCE are two key assumptions. That actors operate and choose within a bounded rationality and that there is potential for actors to behave opportunistically as well as risk neutrally (Seggie, 2012). Further, the four key dimensions of transactions are taken as being: asset specificity, environmental uncertainty, behavioural uncertainty, and transaction frequency (Williamson, 1975). Luo (2007) proposes that opportunistic behaviour is more likely with partners from different cultural backgrounds and Shapiro (1987) suggests this is also true in more complex environments. Whereas a key decision maker may find it relatively easy to predict and forecast developments in domestic markets, this is likely to be more difficult and complex in international markets (Seggie, 2012; Klein, 1989).

Williamson (1975) considers the *unit* of analysis the transaction and the *focus* of analysis as transaction costs rather than productions costs. Firms are assumed to sometimes deliberately and opportunistically engage in self-interested behaviours within relationships formed to construct a market entry – which might include lying, stealing, or violating agreements. Firms are faced with the 'safe-guarding' problem – assets specific to the transaction and relationships become vulnerable to exploitation and the firm investing into those assets is at risk of such opportunism, without being able to resort to the market and escape from the opportunistic behaviour within the relationship.

The systematic and explicit application of TCE to MEM choice appeared for the first time in Anderson and Gatignon's (1986) work. They clustered 17 entry modes according to the degree of control the respective mode provides, continuing on to suggest that the most appropriate mode was a function of the tradeoff between control and the cost of the inherent resource commitment. Brouthers' (2013/2002) seminal work on TC influences (alongside institutional and cultural influences) on MEM choice and firm performance confirms that those firms whose MEM choice could be predicted by the transaction cost theory performed significantly better, in terms of both financial and non-financial measures than those where it could not.

In the case of unpredictability of the host market environment, commonly referred to as *country risk* in the MEM literature, TCE implies a higher level of vertical integration (Morschett et al., 2010). Under conditions of strong uncertainty, it is difficult to anticipate all future contingencies for which adaptations and modifications of a contract with a partnering firm would be required (Anderson and Gatignon, 1986). If uncertainty creates a situation in which the value of an international opportunity cannot be predicted accurately, TCE suggests that firms should react by keeping the initial investment low while securing an option for further future investment (Brouthers et al. 2008). In these situations, cooperative entry modes are seen as an attractive alternative (Morschett et al., 2010).

Brouthers and Nakos (2004) explicitly apply transaction cost theory to SMEs entry mode choice and assert that SMEs that adopted modes predicted by transaction cost theory perform remarkably better than those firms using other modes. Brouthers and Brouthers' (2003) comparative study on manufacturing and service firms suggests that differences in MEM choice can be principally explained by how the firms manage transaction cost variables. Although a few attempts have been made to explicitly apply TCA to SMEs, this theoretical lens seems to have a much clearer relevance for the study of MNEs (Whitelook, 2002). Since the choice of entry mode is an economic decision, an MNE is expected to choose the entry mode that offers the highest risk-adjusted return on investment (Anderson and Gatignon, 1986). Since aligning entry mode with transaction properties has subsequent consequences on performance, the assessment of TCE determinants is considered to remain important (Li, 1995), at least for larger firms. Table 2 summarises exemplary scholarly contributions that have explicitly adopted a transaction costs perspective in their investigations.

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For a young, resource constrained firm, the TCE does not offer a suitable explanation of their entry decisions (Burgel and Murray, 2000). In markets that are characterised by a fast moving, dynamic and competitive environment, MEM choice would not only be based on efficiency (transaction cost) considerations but also on other aspects, such as strategic motives that include internationalisation or the firm's competitive position in the global markets (Sanchez-Peinado et al., 2007; Harzing 2002; Aulakh and Kotabe 1997).

The majority of studies that have investigated firms' entry mode choice from a TCE perspective have adopted a purely quantitative methodological approach, developing independent and dependent variables and testing selected factors and their influence on respective outcomes (Seggie, 2012). Studies of this kind do not sufficiently explain 'how' entry mode decisions are made and/or how the respective decision making processes are structured.

Institutional Theory

Institutional Theory investigates how firms enter and later operate in foreign markets, in an institutional context, defined by specific rules, norms and values (Meyer and Nguyen, 2005; Davis et al., 2000). A key concept of Institutional Theory is isomorphism (Di Maggio and Powell, 1983), which has been described as a constraining process that is expected to force one unit in a population to resemble other units that face the same set of environmental conditions (Hawley, 1968), as is the case with firms competing in the same industry and (foreign) market(s).

These isomorphic pressures have been found to have a significant effect on the entry mode choice (Brouthers, 2013/2002). Here, Institutional Theory suggests that firms entering new foreign markets will imitate actions of both local host market firms as well as competitors in this particular market, thus legitimising their operations as well as their market presence (Yiu and Makino, 2002; Davis et al., 2000). Scott (1995) differentiates these institutional forces into three specific groups, namely regulative, normative as well as cognitive. Regulative forces include laws and rules; cognitive forcers can be considered conceptions by which meanings are created; the normative ones refer to values and norms. Whereas the regulative forces derive from economics, normative and cognitive forces are rooted in sociology (Peng and Heath, 1996).

North (1990) argues that in investigating MEM choice, Institutional Theory should be combined with TCE because institutions provide the structure in which transactions occur; as they define the ‘rules of the game’ and include laws and regulations of the host country (Davis et al., 2000; Oliver, 1997). Roberts and Greenwood (1997) propose that firms will perform better in foreign markets if they pursue both institutional legitimacy and transaction cost efficiency simultaneously. Oliver (1997) shares this viewpoint, arguing that meeting the institutional mandates results in a better fit with the host market environment and thus enhanced firm performance. In other words, this literature proposes that firms adopting modes that conform to institutional considerations, as well as transaction cost efficiencies should perform better than firms using modes based on other considerations and variables. Arregle et al. (2006) further advocates the notion of combining theoretical lenses to study entry mode choice, and proposes a model integrating transaction cost, institutional and organisational learning variables in order to explain the choice of an International Joint Venture versus a Wholly Owned Subsidiary to enter a foreign market.

A number of authors (Davis et al., 2000; Chatterjee and Singh, 1999) suggest that the institutional context significantly influences mode performance, because of the direct connection of the type and usage of specific organisational capabilities with mode choice. Institutional structures may restrict a firm’s entry choice; firms breaching these structures in turn face reduced legitimacy or potential extinction (Davis et al. (2000). The institutional structure, for instance, may provide barriers to foreign market entry such as legal restrictions on ownership (Delios and Beamish, 2001; North, 1990; Gomes-Casseres, 1990; Gatignon and Anderson, 1988). Host governments sometimes restrict foreign firm mode choice to facilitate domestic ownership. Such implemented laws can limit a firm's ability to capitalise on its capabilities through transaction cost predicted choice of entry mode (Roberts and Greenwood, 1997; Gatignon and Anderson, 1988).

Studies that explicitly investigated MEM choice through the institutional lens alone are rare; this theoretical approach is commonaly adopted in conjunction with other theoretical perspectives (Brouthers, 2013/2002; Arregle et al., 2006; Roberts and Greenwood, 1997; Oliver, 1997). Institutional variables, in particular when they are integrated with transactional variables, contribute significantly to the understanding of MEM choice; and have further notable predictive power to determine modal outcome (Canabal and White, 2008). Further MEM choice based on considerations of these institutional variables might well be associated with better performance outcomes in foreign markets. Table 3 summarises selected MEM studies that have adopted the institutional theory perspective.

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In summary, although this perspective significantly contributes to the existing MEM literature, it overlooks the role and influence of the key decision maker. Moreover, it does not advocate a process view on MEM decision making. Institutional Theory reflects a static view on entry mode choice based on antecedents/influencing factors on the one hand, and entry mode choice and respective performance outcomes on the other hand.

The Eclectic Paradigm

The Eclectic Paradigm is the second most commonly adopted theory used in MEM research (Canabal and White, 2008). The theory proposes that MEM decisions are made in a rational manner and are, similar to the TCA, based on the analysis of the costs of the transaction

(Whitelock, 2002). Also referred to as the OLI paradigm, the main theoretical underpinnings of this approach are that a firm's entry mode choice is based on the three factors of ownership (O), location (L), and internalisation (I) (Dunning, 1993; 1988).

Ownership advantages refer to costs, control and benefits of inter-firm relationships (Canabal and White, 2008). They are specific to the firm and relate to the accumulation of intangible assets as well as technological capacities (skills) and/or new product innovations. These assets are reflected by firm size as well as international experience; the skills by the firm's ability to develop differentiated products (Dunning, 1993). These ownership advantages need to be unique and sustainable in order to facilitate the creation of a competitive advantage in the international MEM selection (Brouthers et al., 1996).

Location advantages refers to both institutional and productive factors existing in a particular market or geographical area and are considered to originate when, for instance, it is more beneficial to the organisation to combine products which are manufactured in the home market with irremovable factors as well as intermediate products of another location (Ruzznier et al., 2006). Measures of location advantages commonly include similarities in culture, infrastructure as well as the availability of lower production costs (Dunning, 1993).

Internalisation advantages are concerned with reduced transaction and coordination costs, stemming from internal activities in the value added chain (Ruzznier et al., 2006). The OLI approach has been further developed by Hill et al. (1990) as well as Kim and Wang (1992) who incorporate strategic variables. Further, Woodcock et al. (1994) propose that MEM choice is based on the contingency characteristics of related requirements as well as control factors in the organisation. The Eclectic Paradigm is considered a multi-theoretical approach for the study and investigation of foreign entry mode choice as it draws from International Trade Theory, Resource Based Theory as well as TCE.

Although the Eclectic Paradigm is predominantly adopted in the context of MNEs (Padmanabhan and Cho, 1999) ownership and locational advantages were indeed similarly found to influence the entry-mode choice of SMEs (Brouthers et al., 1996). The main focus of MEM studies explicitly adopting the EP was on MNEs rather than the smaller firm (Ruzznier et al., 2006; Agarwal and Ramaswami, 1992), an imbalance addressed in more recent studies (Meyer and Nguyen, 2005; Somlev and Hoshino, 2005, Roberto, 2004).

Empirical studies explicitly adopting the Eclectic Paradigm as the theoretical framework primarily seek to explain the choice between two distinct mode alternatives (Davidson and McFretidge, 1985, Caves, 1982) which is considered to enable researchers to create new determinants to predict entry mode choice (Anderson, 1997). Table 4 summarises key scholarly MEM contributions that have explicitly adopted the Eclectic Paradigm perspective in their investigations.

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Uppsala Internationalisation Model

Johanson and Wiedersheim-Paul (1975) and Johanson and Vahlne (1977) developed the *Uppsala Internationalisation model* (U-model), highly influenced by Penrose's (1959) theory of knowledge and change in organisations as well as the behavioural theory of the firm. This model depicts the internationalisation of the firm as a process of increasing a company's activities as a result of various types of learning (Johanson and Vahlne, 1977). They propose that general and experiential market knowledge as well as resource commitment (state aspects) affects commitment decisions and current business activities (change aspects). These change aspects increase market knowledge which in turn stimulates further resource commitment to foreign markets in this subsequent cycle (Andersen, 1993). This model implies that firms will increase international operations and involvement within the foreign markets in which they currently operate in. The firms are considered to then enter 'psychically' more distant countries (differences in education, language, business practices etc.). This accumulated knowledge in conducting international operations drives the firm's internationalisation by influencing entry mode decision making (Ruzzier et al., 2006).

This model, also referred to as 'establishment chain' (Johanson and Wiedersheim-Paul, 1975) states that a firm starts international operations with a low-commitment, low-risk mode (i.e. exporting), and gradually increases commitment in international markets as knowledge is accumulated and experience rises. This sequence of different 'stages' leads to modes of operations with higher commitment and financial exposure – from independent export representatives to the establishment of a Sales Subsidiary and eventually a Wholly owned Subsidiary. The notion of 'psychic distance' argues that firms would initially target neighbouring countries that are considered 'psychically close' in terms of culture, economy, politics and moreover, in terms of geographical proximity (Johanson and Vahlne, 1977).

Many (Kontinen and Ojala, 2010, Johanson and Vahlne, 2009; Eriksson et al., 2000; Evans et al., 2000; Coviello and McAuley, 1999; Chetty, 1999; Morgan and Katsikeas, 1997) have made considerable efforts to test and further refine those ideas. Although these internationalistion 'stage theories' have gained remarkable support in the MEM literature, they have also been heavily criticised, and their validly is severely doubted. In particular, the model is accused of being too deterministic (Reid, 1981) and that it does not correspond to the strategic choices individuals in these firms have (Andersson, 2000). As a further challenge to the proposed U-model, empirical findings confirm that firms do not follow this traditional pattern of internationalisation (Madsen and Servais, 1997; Oviatt and McDougall, 1995, 1994; McDougall, 1994).

Connon and Willis (1981) also challenge the underlying assumptions of a step-wise development and propose that firms may well omit stages in order to accelerate the process. 'Psychic distance' has become much less relevant as communication and transportation infrastructures improved and markets became increasingly homogeneous (Nordström, 1991; Czinkota and Ursic (1987). Reid (1983) concludes that internationalisation processes and patterns are unique to the firm and situation, as well as circumstance-specific. Table 5 summarises key MEM studies that have adopted the Upplala internationalisation model.

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There is still value in this model. It contributes to the theoretical understanding of MEM patterns and increased engagement in international markets based on commitment and increased knowledge, and has set valuable foundations for further investigations in the field (Canabal and White, 2008). Hedlund and Kverneland (1985) found some evidence of firms speeding up the internationalisation process. This fast-paced and inconsistent international development has been witnessed amongst SMEs in hi-tech markets , where high R&D costs, shorter product life-cycles and a fast changing environment have accelerated the speed of internationalisation processes (Young, 1987). Against this, Bell (1995: 62) argues that *"in an increasingly global economy, the relevance of 'stage-theories' must be….questioned,* *especially in relation to the internationalisation of high-technology and service firms."* Jones and Crick (2001: 129) support this viewpoint and conclude that *"high technology firms are often faced with different challenges that have cast doubt on their applicability to the widely accepted stage model."*

Similarly, research suggests that strategy formation cannot be considered as being as systematic as the stage model proposes. Rather, the decision maker/s anticipate and react to internal as well as external factors in a variety of ways, which influences opportunity recognition and exploitation, ranging from planned strategies to opportunistic behaviour (Crick and Crick, 2014; Crick and Spence, 2005). Such firms are often considered 'rapid internationalisers' (Oviatt and McDougall, 1995) and the actions taken are commonly defined as 'reactive strategies', seen as critical for survival in dynamic environments (Eisenhardt and Martin, 2000). Other firms are considered to have the competence and capabilities that enable them to operate internationally from an early stage of their development rather than by the 'stage model' (Bell, 1995; Oviatt and McDougall, 1995). Autio et al. (2000) and McDougall et al. (1994) stress that for the majority of small firms operating in an (international) fast moving environment and fierce competition, the ability to adapt quickly to new and changing market/industry conditions and a high degree of pragmatism is more important than prior gained knowledge.

The Resource-Based View

The resource based view (RBV) considers the firm as a unique bundle of accumulated tangible and intangible resource stocks, such as assets, processes, knowledge and capabilities (Sharma and Erramilli, 2004, Roth, 1995). This theory was developed in the field of strategic management and focuses on unique, costly and difficult to copy attributes and assets of the firm; drivers for sustainable competitive advantage and organisational performance that are needed for internationalisation (Ruzzier et al., 2006). A firm's ability to reach and keep a profitable market position will depend on the ability to gain and defend advantageous positions regarding relevant resources (Conner, 1991). Realising the importance of intangible, knowledge-based resources in providing a competitive advantage, resource-based models do not only address the ownership of resources, but also the dynamic ability for organisational learning needed to develop new resources (Canabal and White, 2008).

Due to the heterogeneity of small firms as well as their operating environments, identifying the critical resources needed for internationalisation is considered very difficult (Ruzznier et al., 2006). Considering the attributes that those resources should exhibit in order to sustain a long-term competitive advantage, researchers have listed alternative characteristics. According to Grant (1991), resources must capture transparency, durability, transferability as well as replicability. Barney (1991) proposes that resources have to be valuable, rare, imperfectly imitable and not substitutable. RBV assumes that a high county risk implies the need to protect the firm's resources and suggests avoidance of full ownership (Agarwal and Ramaswami, 1992).

RBV has, in contrast to other theoretical lenses discussed here, fully incorporated the key decision maker's role and influence on key internationalisation decisions (Herrmann and Data, 2005; Alvarez and Busenitz, 2001). Managerial learning, for instance, was identified as a significant variable which corresponded to how the key decision maker learned over time, and further included the roles and experience of the management team (Reuber and Fisher, 1997). In an international context, learning can take place over time, as key employees are exposed to novel experiences, and this resource, considered as a 'knowledge base', which Moorman and

Miner (1998) define as 'organisational memory', can shape decision making. Since in smaller firms, the decision maker's characteristics drive organisational strategy, their personal enthusiasm for overseas expansion and their international mindset is considered to result in higher international involvement (Katsikeas, 1996; Cavusgil, 1984). Crick and Spence (2005: 170) assert that *"as entrepreneurial learning takes place and experience grows, managers develop an increasing amount of intellectual capital that can be used to develop strategies and allocate resources."* Higher education, a further characteristic of key decision makers in High technology firms (Baruch, 1997), has been linked to greater openness to foreign markets (Bloodgood et al., 1996; Cavusgil, 1984). Table 6 summarises key MEM studies that have adopted the Resource Based View.

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RBV has contributed specifically to the understanding of MEM choice of smaller firms (Canabal and White, 2008: Ruzznier et al., 2006) and to the importance of transferring key assets like technology and intellectual property (IP) from the domestic market into the host market, and its influence on modal outcome (Sedoglavic, 2012) is undeniable. Autio et al. (2000) and McDougall et al. (1994) stress that for the majority of small firms operating in a fast moving environment and fierce competition, the ability to adapt quickly to new and changing market conditions is more important that prior gained knowledge. This ability has been identified as 'learning advantage of newness', a process of entrepreneurial learning and a manager's development of intellectual capital (Crick and Spence, 2005). The same authors argue that where high competition meets high demand, a market-orientated approach to internationalisation rather than a resource- based approach should be expected.

Summary of the Gaps in the Literature

Due to the well-established nature of the MEM literature and the wealth of theoretical knowledge accumulated by scholars in the field over the five past decades, Shaver (2013: 23) raised the provocative question of *"Do we really need more entry mode studies?"* and argues that MEM scholars are only marginally contributing to the extant body of knowledge. Having reviewed the current state of the MEM literature we follow Hennart and Slangen (2015), and answered in the affirmative. Specifically, we now identify three main gaps which are summarised in the following passages. These are; the imbalance towards larger firms and away from smaller ones, the lack of focus on the process of entry mode decision making and the clear need for integration between different perspectives to produce more holistic insights and understanding.

The first gap refers to the fact that most explicit MEM studies have commonly investigated MNEs rather than smaller firms, and/or have attempted to provide generalisable explanations regardless. Predominant internationalisation theories (TCE, Institutional Theory, Eclectic Paradigm, Uppsala Model, RBV) fall short in adequately reflecting small firm characteristics and the challenges they face in foreign markets. After decades of research, the predominant focus on MNEs in explicit MEM studies (Hennart and Slangen, 2015; Lauf and Schwens, 2014; Shaver, 2013) prevails, even though SMEs differ significantly from large firms in terms of; financial and personnel resources (Ripollés et al., 2012; Brouthers and Nakos, 2004; Nakos and Brouthers, 2002), sensitivity to external influences (Cheng and Yu, 2008; Erramilli and D'Souza, 1995), differences in ownership structure and management characteristics (Cheng, 2008; Pinho, 2007); willingness to share control with a partnering firm (Fernandez & Nieto, 2006), decision making characteristics, operations and managerial style (Gilmore et al., 2001; Smallbone et al., 1995; Carson 1990). The managerial work in small firms itself has been characterised by *"short, interrupted and fragmented activities; a need to react to events, problems and requirements of others, a preoccupation with the exigent, ad hoc and unforeseen, rather than the planned, a tendency for activities to be embedded in others rather than undertaken separately…"* (Hales, 1999: 338).

While studies that draw on existing theoretical frameworks to explain SME foreign MEM choice remain are very rare, studies that do so largely apply the *Internationalisation Theories* that have been used to explain large MNEs' MEM choice. This present research asserts that focusing on SMEs does not mean focusing on "*sample setting – for the sake of sample setting''* (Shaver, 2013: 25), which he considers a major deficiency of current MEM contributions, but means investigating these firms in order to enhance existing knowledge beyond what scholars know about MNEs. Consequently, there is a need for more explicit investigations of MEM decision making in smaller firms (Laufs and Schwens, 2014; Maekelburger, (2012).

The second gap in the literature stems from the relative absence of research that explicitly focuses on the entry mode decision making *processes* within firms. Investigating *'how'* these processes affect mode choice can lead to valuable new theoretical insights (Hennart and Slangen, 2015; Canabal and White, 2008). Based on a unitary and static MEM conceptualisation, and both external and internal (firm-specific) antecedents and determinants (Hennart and Slangen, 2015; Shaver, 2013; Canabal and White, 2008; Ruzznier et al., 2006; Zhao et al., 2004), the *Internationalisation Theories* discussed previously do possess substantial explanatory as well as predictive power and help in understanding which factors *"encourage or discourage"* (Root 1994: 8) MEM decisions. They do, however, offer only limited insights into the decision making processes in firms. In line with Shaver's (2013) criticism that recent scholarly contributions have been commonly preoccupied with the advancement of statistical measurement, the actual entry mode decision making processes in firms and the associated *how* and *why* questions associated with those processes have been widely neglected by MEM scholars. Two noticeable exceptions remain the studies by Buckley et al. (2008) and Chen (2008). Whereas Buckley et al. (2007) identify a stepwise decision making approach amongst managers, empirical findings by Chen (2008) do not confirm these propositions. These contradictory findings confirm that further insights are needed. The lack of theoretical understanding of MEM processes also reflects the assertion that the study of choices can be methodological complex, since the choice process itself might well be complex (Shaver, 2013).

The questions of *"How is the entry decision process structured?"* (Hennart and Slangen, 2015: 114) and: "*Does the decision making process of entry mode choice vary*?" (Canabal and White, 2008: 278) provide a promising departure point for further MEM research. Future MEM research should also differentiate itself from the large body of normative studies and static views on the MEM conceptualisation, by explanatorily investigating entry mode decision making processes. Further, the identification of imperfections in the process through which managers arrive at MEM decisions would enable researchers more concrete and more valuable managerial recommendations (Hennart and Slangen, 2015).

The third gap concerns the calls made by MEM scholars to combine and integrate theoretical perspectives in order to investigate entry mode decision making. Dominant *Internationalisation Theories* emphasise and investigate only certain aspects and variables while neglecting important others. As no single theory may be sufficient to explain a firm's MEM decision making *"another important approach that could strongly benefit entry mode research is for scholars to continue to combine and integrate theories* (Canabal and White, 2008: 278). This call is in line with Nisar et al.'s (2012) proposition to employ an integrated theoretical perspective to investigate MEM decision making.

In smaller firms, the decision maker's characteristics drive organisational strategy; hence the individual's personal enthusiasm for overseas expansion and their international mindset affect internationalisation decisions (Katsikeas, 1996; Cavusgil, 1984). Scholars (Acedo and Galán, 2011; Brouthers et al., 1998) have highlighted the significant role the key decision maker plays; and Peiris et al. (2012) claimed that further research on internationalising SMEs should take these key decision makers as a focal point. Foreign market entry can be considered an entrepreneurial activity (Lu and Beamish, 2001; Knight, 2000) and international business opportunities are identified by individuals, not by firms (Shane and Venkataraman, 2000). Scholars (Andersson and Florén, 2008) have thus called for a closer focus on the relationship between the key decision maker's behavior and the firm's internationalisation.

The relative importance and significance assigned to the decision maker's role, however, varies amongst various theoretical perspectives on MEM choice. The U-model (Johanson and Vahlne, 2009, 1977), the Eclectic Paradigm (Dunning, 1993; 1988), TCE (Erramilli and Rao, 1993; Hennart, 1989, Williamson, 1985), Institutional Theory (Meyer and Nguyen, 2005; Davis et al., 2000; Di Maggio and Powell, 1983) have merely overlooked or neglected the role of the key decision maker in internationalisation decisions. RBV (Grant, 1991; Barney 1991) regards managerial learning and knowledge as firm specific and valuable assets but other scholars (Autio et al., 2000; McDougall et al., 1994) point out that that for the majority of small firms operating in fast moving environments and fierce competition, the ability to adapt quickly to new and changing market conditions is more important that prior gained managerial knowledge. RBT states that the firm's internal capabilities would drive the firm's internationalisation strategy, but *'reactive strategies'* (Eisenhardt and Martin, 2000) have been witnessed among small firms in dynamic markets, by identifying windows of opportunities that might not stay open for long (Crick and Spence, 2005), as opposed to the 'inside out' approach the RBV advocates.

Network Approaches, in contrast to other theoretical lenses discussed, confirm the critical role that the individual decision maker's characteristics play (Collinson and Houlden, 2005). Understanding small firms as actors embedded in business networks (McAuley, 1999; Johanson and Mattson, 1993), decision makers are strongly influenced by those social relationships (Granovetter, 1985). As SMEs face hardship in obtaining resources and foreign market knowledge (Zahra, 2005), networks support these firms to overcome these resource constraints (Sharma and Blomstermo, 2003). Surprisingly, the network perspective has still to be fully applied in the MEM literature (Canabal and White, 2008). The questions of '*how*' and to what extent the interaction of the actors in the networks impact on the key decision maker's choice and/or the structure of the decision making processes remains under researched in the MEM literature.

Conclusion

This chapter presented a focused review of the MEM literature, through a discussion of its conceptualisation and classification criteria, as well as a critical evaluation of predominant *Internationalisation Theories* that have attempted to explain a firm's entry mode choice. Even though MEM is a well-established research area, there is a need for further exploratory research as opposed to the predominant focus on explanatory and predictive research. It can be concluded that *"So far, we lack detailed knowledge of how entry decisions are actually made." (Hennart and Slangen, 2015: 119)*. More research is needed to investigate '*how*' these processes are structured. The predominant *Internationalisation Theories* discussed fall short in respect of small firm characteristics and challenges and the individual decision maker's role in the MEM decision making remains relatively overlooked.