# MASTERARBEIT / MASTER'S THESIS

Titel der Masterarbeit / Title of the Master's Thesis

„„Literature overview of the export determinants and their impact on the export performance"

verfasst von / submitted by

Oksana Nezhyna

angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Science (MSc)

Wien, 2016 / Vienna, 2016

| | |
|---|---|
| Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet: | A 066 914 |
| Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet: | Masterstudium Internationale Betriebswirtschaft |
| Betreut von / Supervisor: | Ao. Univ.-Prof. Dr. Josef Windsperger |

## ABSTRACT

Ever - growing competition and continuing globalization is forcing firms to expand to new markets in the search of competitive advantages. One of the most frequent forms of internalization is exporting, which implies the least investment, risks, time for market entry preparation and international experience compared to other entry modes. As the number of exporting companies around the world grows, so does the academic research in the field of exporting in general and determinants of successful exporting performance in particular. Nevertheless, extensive body of literature lacks consistency and uniformity, which leads to slow theory and business practice advancement. Moreover, the differentiation between two most common forms of exporting, i.e. direct and indirect modes, has received less attention in the past research. This paper aims to review and synthesize numerous empirical studies conducted between 1990 and 2015 to assess the determinants of export performance that affect the choice between direct and indirect exporting. The results have revealed that direct exporting dominates indirect export mode, mostly due to global trend of strategy standardization and relaxation of market barriers in scope of public policies. In general, direct export mode is favorable under assumption of low production costs, available capital resources, access to market knowledge or technology. On the opposite, indirect exporting is chosen by firms that follow adaptation strategy for product and promotion, have small–to–medium firm size or export to highly competitive hostile markets.

## DEUTSCHE ZUSAMMENFASSUNG

Stets wachsender Wettbewerb und die fortschreitende Globalisierung zwingen Unternehmen dazu in neue Märkte zu expandieren um nach Wettbewerbsvorteilen zu suchen. Eine der am meisten genutzten Formen der Internationalisierung ist der Export. Export als Markteintrittsstrategie ist charakterisiert durch das kleinste Investitionsrisiko, die kürzeste Vorbereitungszeit für den Markteintritt und die Notwendigkeit von wenig internationaler Erfahrung im Vergleich zu anderen Markteintrittsstrategien. Da die Anzahl der exportierenden Unternehmen weltweit immer weiter ansteigt, erweitert sich auch die wissenschaftliche Forschung zu dem Thema stetig im Allgemeinen, aber auch in Bezug auf Faktoren, die eine erfolgreiche Exportstrategie determinieren. Dennoch fehlt es der umfangreichen, zu dem Thema vorhandenen Literatur an Konsistenz und Einheitlichkeit. Dies führt zur Verlangsamung der theoretischen und praktischen Weiterentwicklung. Darüber hinaus wurde dem Unterschied zwischen den beiden am häufigsten verwendeten Exportformen, direkter und indirekter Export, in der bisherigen Forschung wenig Beachtung geschenkt. Das Ziel dieser Arbeit ist es die zahlreichen empirischen Studien, die zwischen 1990 und 2015 durchgeführt worden sind, zu untersuchen, um die entscheidenden Determinanten für die Wahl zwischen direktem und indirektem Export zu analysieren. Die Untersuchung ergab, dass direkter Export öfters als indirekter Export angewendet wird, in den meisten Fällen aufgrund vom globalen Trend standardisierte Strategien einzusetzen und gelockerte Markteintrittsbarrieren in Rahmen der öffentlichen Politik. Im Allgemeinen ist der direkte Export vorzuziehen, wenn die Produktionskosten niedrig sind, Kapitalressourcen vorhanden sind und über den neuen Markt oder Technologie Kenntnisse bestehen. Im Gegensatz ist der indirekte Exportmodus dann zu wählen, wenn eine Adaptation der Produkte und der Wettbewerbsstrategie notwendig ist, das Unternehmen klein oder mittelständisch ist oder der Export in wettbewerbsintensive Märkte erfolgen soll.

## CONTENTS

## LIST OF TABLES



## LIST OF FIGURES



## LIST OF ABBREVIATIONS

| | |
|---|---|
| FMCG | Fast Moving Consumer Goods |
| GDP | Gross Domestic Product |
| ML | Medium – to – Large Enterprises |
| SME | Small – to – Medium Enterprises |
| MEMS | Market Entry Mode Selection |

# 1. INTRODUCTION

Rapid and dramatic changes, happening in the economic and politics these days all over the world, force enterprises to react accordingly, timely and properly. Quite often in order to survive and prosper in the extremely competitive environment businesses have not only to react on the changes adequately but also to foresee such changes and to be proactive. The most successful companies are those who are able to see two or three steps forward in the future and predict the demand even before the customers have the smallest and the vaguest purchase intentions. Who does not move forward fades. Thus, firms spend more and more time and efforts on market research and on strategic analysis of studies about customer behavior.

One of the most prominent trends occurring in today's fast moving world is globalization and universalism. It is common reality today to order goods that have been manufactured in Vietnam from China, while being in US and to have them delivered on the next day via Malaysian post. It is even more difficult with services: if a customer encounters problems, he/she calls customer centers using his/her local phone, whereas the call lands somewhere in India, where the customer center is physically located. Going international is nowadays not a question anymore for many big and medium companies. The main question firms have to answer before going international is: what is the most appropriate mode of entering the foreign markets, which will bring maximum profit, while undergoing minimum risks, investing reasonable amount of funds and taking under assumption external and internal determinants?

The present paper aims to study major and most prominent researches and scientific papers in the field of internalization in order to answer the question using the latest and most important achievements of economic theories.

## 1.1 PROBLEM STATEMENT

Growing competition and continuing globalization is forcing firms to expand to new markets in the search of competitive advantage. Ever-increasing number of companies hence strategically decides to internationalize. Moreover, internationalization has become inevitable because from national perspective, economic isolation is no longer possible (Bender & Fish, 2000). Non participation in global trade leads to decline in country's economic capability (Czinkota & Ronkainen, 2004). Barkemara, Shenkar, Vermeulen and Bell (1997) state that with the help of accumulated experience in the foreign market companies also obtain knowledge of the local market and consequently develop processes to operate in a foreign context. The terms globalization and internationalization mean the tendency, which is characterized by more significant interdependence between national institutions and national economies. It is a trend of "denationalization" when boundaries between nations become less and less relevant and cooperation between national players grows. (Wild, Wild, & Han, 2003) Moreover, Friedman (1999) claims that internationalization is not just a temporary trend but an overarching international system forming the politics on national level, the relations between countries and even within the countries themselves.

Under such circumstances, the importance of strategic internalization has become principal for companies in the most developed and emerging markets. Whereas diverse internalization modes are described in the academic literature and applied in the praxis, most popular way of going international today is to export (cf. (Morgan, Kaleka, & Katsikeas, 2004; Lado, Martinez-Ros, & Valenzuela, 2004). According to the latest estimations in 2013, exporting accounted to almost 30% of world gross domestic product (World Bank 2013) and continues to grow. Hence, it becomes vital to indicate and evaluate factors of firm's international competitiveness and point out the most notable determinants of successful operations in the export markets (Cavusgil & Zou, 1994).

The research development on export performance and its determinants is not only interesting for managers, but also for public-policy-makers and researchers. Managers benefit by gaining knowledge how to achieve sustainable competitive advantage and aim for improved corporate growth rates. Public – policy – makers may not under evaluate the importance of exporting as one of the determinants of national welfare. Favorably developing export leads to better employment levels, improved national productivity, well accumulated foreign exchange reserves and overall enhanced prosperity. (Sousa, Martinez - Lopez, & Coelho, 2008)

Thirdly, the growth of exporting has facilitated increased interest of academics to explore the drivers of export success, to evaluate the impact of export marketing strategy and to provide theory building referring to strategic and international marketing. Numerous studies have concentrated on understanding the key variables that affect export performance in an ever globally expanding environment and emergence of global competition. Nevertheless, academic literature in the field of the determinants of export performance is not a new phenomenon. On the contrary, the topic has been extensively researched over last 40 years (cf. most prominent authors in the field: Cavusgil & Zou (1994; 1993); Sousa et al. (2002; 2008; 2009); Leonidou et al. (2004); Morgan et al. (2004; 2012) Lages et al. (2004; 2005; 2008)).

Nonetheless, extensive literature contributions to export performance had an impact on notable defragmentation and lack of integration between different studies. Moreover, studies provide less differentiation between direct and indirect exporting modes, rather concentrating on general influences on the export performance as a whole. Therefore, the goal of this paper is to summarize, classify and evaluate previous research findings about the internal and external determinants that affect not only the export performance as a whole, but also the strategic choice of the firms between direct and indirect export modes and its consequences.

## 1.2 THESIS STRUCTURE

In order to reach the goal of this paper and thus to provide literature overview of the main determinants of the strategic choice between direct and indirect export modes this thesis includes an overview of diverse academic studies, conducted in the last two decades. First of all, the paper starts (Chapter 2) with a short introduction of the main entry modes that are applied by firms today. The focus of the chapter is on peculiarities of direct and indirect exporting modes that should help the reader to gain a better understanding for further analysis of export determinants.

Secondly, paper continues on defining the common factors or the determinants that affect the choice of market entry strategy, whereas the determinants are classified into internal and external groups (Chapter 3).

Chapter 4 gives a brief outline of the three major economic approaches to explain the aim for internalization and the rationale for the particular overseas trading mode. This chapter prepares a theoretical framework, which further clarifies the impact of external and internal factors on managerial exporting decisions.

Chapter 5 links the previous chapters, namely general definitions of export determinants and theoretical framework for strategic decision. This is achieved by providing extensive overview of diverse academic papers on export performance depending on export determinants and strategic behavior of firms, choosing between direct or indirect exporting. The research method of this thesis focuses on the analysis of the secondary data provided in the past studies that were published in the last 25 years. The chapter then concludes with an overview table of abbreviated literature overview including main findings obtained in the past research papers.

Finally, the thesis concludes with Chapter 6 with some main theoretical and managerial implications, as well as suggestions for the future research.

# 2. ENTRY MODES: VARIETY AND PECULIARITIES

Many authors, including Osland, Taylor, & Zou (2001) point that globalization and internationalization of businesses has increased significantly in the recent time. This, in turn, forced companies to think of the strategies that will allow enter and integrate them into new markets. In this process one of the most vital decisions a firm has to make is a market entry mode selection. As Hollensen (2001) states entry strategies for global markets are key issues for today's companies, they assist in setting goals, perspectives, policies that guide company activities in the international field that in turn enables them to reach sustainable growth. Company's entry strategy is not a single market plan but a combination of such plans. Risks and other environmental factors have to be considered while choosing among market entry strategic alternatives. "Entry is one of the supreme tests of competitive ability. No longer is the company providing itself on familiar ground, instead it has to expose its competences in a new area." (Bradley, 2002, p. 244)

In order to give a reader a clear understanding of internalization process, this paper starts with the brief introduction of entry modes that make it possible nowadays to achieve competitive advantage under the pressure of globalization. Although this paper mainly focuses on exporting, other forms of internalization should be defined so that a clear distinction can be established in order to eliminate possible confusion. Hence, the following chapter provides a short general overview of existing entry modes with the more precise focus on direct and indirect exporting, gives an image of the advantages and disadvantages of each mode described and offers a discussion of some approaches for classifying entry modes on the international market.

## 2.1 DEFINITION AND GENERAL CLASSIFICATION OF MARKET ENTRY MODES

Generally speaking entry modes or operation methods refer to the method of operating on the foreign market (Welch, Benito, & Petersen, 2007). Aiming to reach their target goals, companies may opt for one or the other entry mode. Typically such modes include exporting (direct and indirect), licensing, joint ventures, acquisitions and Greenfield investments (Davis, Desai, & Francis, 2000).

There are different approaches to classify market entry modes according to the resource commitment, level of control and risk involvement (Anderson & Gatignon, 1986; Erramilli & Rao, 1993).

According to Erramilli & Rao (1993) market modes are grouped into two categories based on their level of control: either full control (wholly owned operations) or shared control (joint venture or contractual transfer). Kim & Hwang (1992) define three groups of market entry modes: licensing, joint ventures and wholly owned subsidiaries. This classification is based on a level of control and a level of resource commitment criteria. These factors serve as distinguishing criteria in the work of Agarwal & Ramaswami (1992), where authors mention exporting, licensing, joint and sole ventures as possible entry modes. Another classification based on different factor, namely location of produced products, is suggested by Terpstra & Sarathy (2000), who divide market entry modes into such categories as direct exporting, indirect exporting and foreign manufacturing.

Welch, Benito, & Petersen (2007) propose the classification of entry modes that consists of three groups: contractual, exporting and investment modes. According to this classification the following types belong to the contractual mode: management contracts, franchising, licensing, alliances, subcontracts and project operations. Exporting mode includes direct exporting, indirect exporting and own sales/office subsidiary. Lastly, investment modes encompass minority share, 50/50, majority share and fully owned companies.

Pan & Tse (2000) have different view on classification of market entry modes. They divide them into two groups: equity and non-equity. According to their logic, these groups differ significantly in terms of investment requirements and control. As they claim, equity modes (wholly owned ventures, joint ventures) require considerably higher level of control from headquarters as the involvement of commitment to investment is rather large. Non-equity modes (licensing, R&D contracts, alliances, etc.), in turn, require lower level of control as they are characterized by lower intensity of the investment. Thus they assume a direct correlation between level of control and investments involved.

## 2.2 ADVANTAGES AND DISADVANTAGES OF THE MAIN ENTRY MODES

Regardless the classification, which is used to group all entry modes into a number of categories, there are following main types of entry modes existing:

- *Exporting.* This is probably the simplest, the oldest and the most common type of entry modes. It implies exporting domestic products to a foreign country. This kind of market entry modes has been known since the times of Great Silky Way or, perhaps, earlier. In fact, it is the process of transporting merchandise and services from one country to another for the purpose of distribution, service and sales. (Ireland, Hoskisson, & Hitt, 2006)

The method requires very little investments since it utilizes existing capacities of the company and thus, the risks are quite low. Market can be entered easily, quickly and gradually. Nevertheless, tariffs and non-tariff barriers, which increase costs of goods, might be applied. Exporting is suitable to be the first entry mode that helps a company to obtain an experience on the foreign market. Sometimes target markets are not very attractive for greater investments (high competition level, limited sales potential, etc.). In such cases exporting may be the only reasonable way to enter the market. (Mercado, Welfort, & Prescott, 2004) The company may opt for direct or indirect exporting. These modes will be described in details later in this chapter.

- *Licensing.* If due to some reasons exporting is not appropriate mode of market entry, the company has to think about producing goods or services in the foreign market. In this case licensing is an option involving the least amount of investments and risk. Licensing is entrance to the international market by purchasing or leasing the rights to use company's intellectual property (working methods, technologies, brand, copyright, trademark, etc.) to the company that is operating in the target international market. (Ireland, Hoskisson, & Hitt, 2006) The company (the licensor) does not produce anything itself, but grants (leases) an access for a fee to the partner (the licensee). It is a contractual agreement between two parties. (Dunning & Lundan, 2008).

The agreement includes fixed regulations, there might be geographical restrictions as well as time limits to use the licensor's expertise, nevertheless by utilizing this mode a company circumvents trade barriers and overcomes cultural distance that may take place, while exporting goods as company might be perceived as an outsider. At the same time the disadvantages and risks of licensing are straightforward. A licensor must give away his know-how and expertise, which might imply lack of control over the assets use. A licensee may eventually become a competitor after the licensing period. Therefore an ability of the licensee to become a competitor in the future should be seriously considered before concluding licensing agreement. (Albaum & Duerr, 2008)

- *Franchising* is the licensing of services or goods to partners for the special fees. The franchisor provides trademark, some well-known products, support services like trainings, quality assurance programs, advertising, etc. (Ireland, Hoskisson, & Hitt, 2006). Buying a franchise is a safe way to enter the new market as both parties are interested to work and grow. Franchising means selling goods and services that are immediately recognized on the market as they have already gained success in some other markets (Jasarevic & Licina, 2013).

At the same time franchising is not applicable to all kinds of entrepreneurship. Businesses have to assess their potential and the best forms of its usage. Franchising is especially good when the entrepreneurs want to use the knowledge and reputation on the market in terms of trademarks and brands and can take advantage of it in order to expand internationally. (Brown, 1996)

According to the International Franchise Association the franchise is going to dominate the retail market in future. It has stronger representation in services than in production and has taken plurality in economic sectors. Franchising is a good path for success as failure chances are quite low, since large companies protect franchising by training them, guiding their activities and defining the accepted standards. (Mendelsohn, 1995)

- *Strategic alliances.* This mode of market entry enables companies to compete in the international market by creating a new source of competitive advantages. Alliances help to gain an access to strategic capabilities by cooperating with a partner who possess complimentary resources or by pooling its resources with those partners who has similar capabilities. (Chen & Chen, 2002)

Strategic alliances can enable entrants to minimize investment risks, share technological achievements, improve efficiency, global mobility and improve global competitiveness. The main advantages of strategic alliance are risk sharing, asset protection, pooling of resources and the ability to adapt and react to market changes faster and efficiently. Among disadvantages one can mention high risk of losing control over technology, different views on strategies that are to be implemented, inequality in sharing resources, etc. (Chen & Messner, 2009)

- *Joint ventures.* This mode of entry, also known as consortium, contractual joint venture or contractual alliances, is quite common in international market. Joint venture implies a shared ownership of two partners, when one is located in the home country and the other is in the host country (Johnson & Tellis, 2008). However, a joint venture may also consist of two international firms from two different countries, which aim to explore a third market. Sometimes government can also be involved in a joint venture.

For the strategic purposes in today's highly competitive environment both multinational companies and smaller organizations depend on joint ventures as a tool of international market entry (Li, 2007). Ownership and control in joint ventures are shared. Such alliances help a company to stay strategically flexible in the new market and foreign parties can save costs by using host partner's infrastructure and liability limitation. (Chen & Messner, 2009)

Joint ventures make sense when the sales potential in the target market is high along with the high cultural distance, which requires from a company to have the local staff and market knowledge to gain sustainable market share. The new company will be seen as an insider on the market. While high import barriers make exporting option unattractive, a joint venture can be a good alternative to enter the foreign market. Despite the fact that investments needed to form a joint venture are higher than in case of exporting and licensing, the risk is also spread among the participants. Moreover, there is an advantage of economies of scale and scope and synergies that can be achieved by the exchange of know-how and cooperation. At the same time the spillover of know-how and the overcome independency of each party involved can be seen as disadvantage. Coordination of actions between partners may become quite difficult to manage, together with differences in corporate culture and policies and lack of adequate mechanisms to resolve the disputes. Successful activities can be hard to allocate among the parties involved. (Buckley & Ghauri, 1999)

- *Wholly owned subsidiary* is a type of entry mode when a company sets operations in a foreign country without direct involvement of the firm in this country. It can be established either by means of acquisition or by grounding a completely new entity (Greenfield investment). This entry mode is more integrated and it enables an organization with a transitional strategy to use profits gained on one market to improve its position in another market. (Hill & Jones, 1998)

Owning an affiliate in the foreign country means a complete control over this asset. Obviously, this is the riskiest entry mode which requires the most commitment and efforts from the company. At the same time this mode guarantees better knowledge of the market and closer and more direct contact to the customer. In case of high sales potential and low cultural difference between the markets this type of entry mode might be advisable as local resources can be exploited in an easier way and more efficiently. (Svensson, 1999)

Among advantages that can be achieved, while opting for this strategy one can name the following: 1) The company may achieve profitability in the long-termed perspective. 2) The direct contact with local players, like customers, suppliers, intermediaries, governmental institutions can be set. 3) A global performance of the company can be enhances by setting a wholly-owned subsidiary abroad. (Hill & Jones, 1998)

Among drawbacks there are following: 1) the highest level of commitment in terms of resources and capabilities of the company. 2) The process of setting up a company abroad is long and costly. 3) The level of risk and uncertainty is very high due to extensive local investment in the host country. 4). An intensive cooperation and working with local social and cultural aspects is required in order to minimize potential problems. (ibid.)

The description of different entry modes existing will be continued with more detailed discussion of exporting as non-contracting entry mode, its peculiarities, advantages and drawbacks. The following chapter (2.3) will investigate direct and indirect exporting in details.

### 2.3 AN OVERVIEW OF DIRECT AND INDIRECT EXPORTING

Indirect exporting implies exporting products and services with the help of a third party, which coordinates the entry and assumes risks. There are a number of alternatives that are available for indirect exporting. The most common one is through so called export management companies, whose main goal is to market products and services internationally. They sell company's products abroad and take away all the burden of going international. Export management companies adapt to client demand, market requirements and their own capabilities and resources. They operate as distributors taking the title of the goods or as agents not taking the title of the goods consequently. Intermediary can also act as a distributor or an agent for the same company in different situations depending on the requirements of the market. (Root, 1994)

Second type of exporting partner in case of indirect exporting is an exporting trading company, which distributes and transports the products. This type of the partner works more on demand than supply; they are independent distributors, who connect buyers and sellers, aiming to find maximum exporters to their foreign partners. (Daniels & Radebaugh, 2001)

One more type of indirect exporting is unsolicited order. This is often the initial option to expand business internationally for the first time. By means of such orders the firm realizes that there is a potential market and customers outside home market and it can lead to more serious international business in future. (McAuley, 2012) Another option of indirect exporting implies using domestic distributors. In this case, goods are sold to distributors or dealers first who in turn re-direct them to the customers in the target country.

Final option of indirect exporting is called piggyback exporting. Such exporters produce and export their own merchandise but as they possess some expertise in the field as well as distribution network and resources to trade on the foreign market, they export products of other firms as well. Thus, a company, which has not enough capacities to export their goods directly, can piggyback on the expertise of another organization. (Albaum & Duerr, 2008)

There are following advantages of indirect exporting to be mentioned: first of all, international expertise is not required since additional resources and networks are not needed. Secondly, the management of the company has a possibility to focus on the core business of the firm in the domestic market and does not have to be distracted by international issues. It can be a significant advantage in the business situations, when company's strategic development is focused primarily on domestic goals rather than international. Thirdly, the international market can be entered faster because all strengths and facilities of the exporting company are used. There is no need to hire and train new staff. Next, fourth advantage is the minimization of financial commitment because exporting company covers majority of the expenses such as marketing or additional employees. Finally, fifth advantage is risk minimization as a result of decrease in investments. (Foley, 1999)

Nevertheless, there are also important disadvantages of indirect exporting. Poor control of the activities associated with exporting is the first disadvantage in the list. Most of the decision making is performed by export partner and there is a limited opportunity to influence it. Moreover, there is much reduced market feedback since the exporting firm is not willing to share a lot of information on the international markets in order to keep their business. Secondly, there is always a risk of choosing a wrong partner as the partner will focus on the market, which brought success in the past which, surely, does not automatically mean that these markets are suitable and appropriate for the company's production. This is especially the case if a company has the only exclusive exporting partner for the sales all over the world. Sales decrease and missed opportunities are quite likely in these situations. (ibid)

In case of direct exporting the firm does not involve an intermediary in the domestic market and builds its activities directly on the foreign market. The foreign entity acts as a sales representative, a distributor, an agent or a subsidiary. There is a direct connection between the local and foreign partner which can be an advantage as activities are controlled, managed and influenced better. Thus, the disadvantage of controlling and feedback is reduced comparing to indirect exporting as there is no export partner who is not willing to give too much information. As a result closer contact and accurate market feedback is achieved. A higher turnover than by indirect exporting is rather likely. On the other hand, if the market selection or agent search is conducted badly, sales may be lower. Among direct exporting disadvantages one can mention greater investment need, since the producing entity has to control the whole export process when more commitment and resources are required to achieve the goal. Secondly, higher risk of the direct method is associated with high degree of financial and non-financial investments in a form of employees and management time. Finally, the time-to-market grows notably depending on such factors as company's expertise and network in the target market. (Doole & Lowe, 2008)

As it is seen form advantages and disadvantages analysis, finding the appropriate export partner is vital for company's success on the international scale. It is namely the partner, who does the business abroad and possesses a number of benefits if a partnership works effectively and brings along significant risk if its does not. (ibid)

# 3. DETERMINANTS OF INTERNATIONALIZATION STRATEGY

The previous chapters of the present paper have provided a general overview of different international market entry modes with classification of those based on various criteria as well as presented main economic theories, which explain and support scientific views on the phenomena. The present chapter will focus on the various factors that determine the choice of market entry strategy. All factors are commonly divided into external or internal to the company. The factors will be explained in the frames of the theories elaborated by scholars working in the field.

Among other classifications of the factors that impact the entry mode choice this paper will focus on the model of Koch (2001) as this holistic model has been designed to include all business contexts and majority of the relevant business practices. Moreover this model is universally applicable for the market entry mode analysis. Root (1994) organized all factors into a table mentioning, which factor has a decisive influence on the respective entry mode choice. Other authors, whose theories are presented below, added other specific factors of market entry choice to make an overview more holistic and comprehensive.

## 3.1 INTERNAL DETERMINANTS

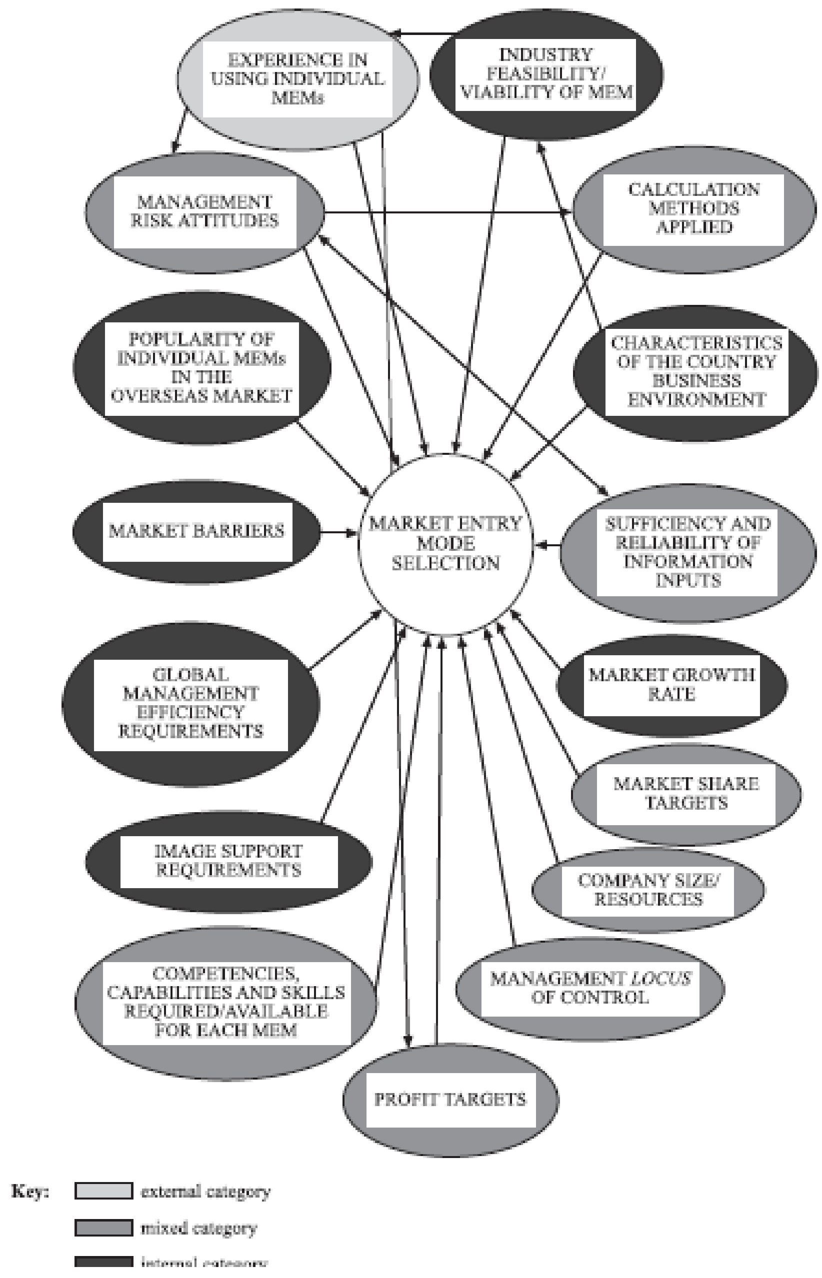
The overview of internal factors influencing the market entry mode decision starts with the model of Koch (2001). The visual representation of this model can be seen in the Figure 1 on the next page. This model divides all factors influencing Market Entry Mode Selection (MEMS) into internal, external and mixed categories. Some of the factors from one category may impact other making the decision process more complex.

In the internal group Koch names:

1. Company size/resources. This is obviously influencing factor since smaller companies have fewer possibilities and options to choose since their own resources are limited for some of the entry modes. For instance, setting a fully owned subsidiary abroad requires substantial investments and is associated with high risk. Small firms have also limited management potential and specific skills for setting fully owned subsidiaries and joint ventures. However, the importance of firm's size

in the choice of selecting relevant entry mode depends on industry specific characteristics and resource demands. For example, for machinery or chemical industry this influence is much stronger than in the computer industry (ibid.).

Figure 1: Factors influencing market entry mode selection




Source: (Koch, 2001, p. 353)

2. Management locus of control. This factor and its importance for the international market entry mode selection is often underestimated or even omitted. Nevertheless, strong international locus of control can affect managerial perception significantly and determine the outcome of the decision process. If there are a number of managers that are decision makers in the company there might be a locus

of control discord. The locus of control is not a rigid concept as it may change as a result of some crucial changes within a company or gradually together with the growth of experience.

2. Experience in using MEMs. It is important whether the company has ever used any market entry mode, what were the outcomes of the selection, whether it was a success or failure, what were the circumstances of the choice. If the company has gained a lot of knowledge of the target market they tend to invest into business ventures rather than look for contractual modes. Effectiveness of the organizational learning depends on the experience of the individuals and on the prevalence of reflection sharing in the firm. It can increase the chances for experience to continue to influence the decision process outcomes as strongly as before. The entry selection process will likely be a subject to scrutiny and continual improvement if the shared reflection-in-action becomes common. The factor of increased accessibility of information in the internet era can speed up the gaining of experience. (ibid.)

3. Management risk attitudes. There are many determinants, like company's financial situation, strategic options, the competitiveness of the environment, relevant experience, etc., that define the level of international risk acceptance in the firm. The subjective perception of risk associated with individual market entry mode also influences the selective decision greatly. The less risk-averse the management, the more likely will the firm select countries showing long-term prospects and promising to improve company's capabilities. (ibid.)

4. Market share target. If a company that is going international aims to maximize sales or market share, they will opt for market entry modes that are most likely going to achieve these goals within set time frame. If this goal, for example, is contingent on the development of distribution network the firm may choose a fully owned subsidiary. While looking for maximization of export sales revenue growth within next two years, the organization may opt for indirect exporting entry mode. (ibid.)

5. Calculation method applied. Risk ad benefit based calculation method as well as cost or control based calculation method are used in market entry selection as well. Some specific methods might not be applicable to every entry mode, either because the required information is not available or because the logic and dynamics of these entry modes is different. If the market entry choice should be based on direct

comparison of the expected outcomes of competing modes, the choice of the method can make it feasible. (ibid.)

6. Profit targets. Different entry modes can promise different profit levels as well as the dynamics of the returns are quite different. Exporting may bring an immediate profit which may soon level off while fully owned subsidiary may bring no profit within three or four years. If the company is looking into long-termed perspective they may choose the latter, while a short term implies the former. It is important to pick up suitable profit estimation method and method that compares expected profit between different entry modes and reliability of input data. The lower is the target profit, the more likely will the company choose countries showing greater long-term perspectives and promising to improve the company's capabilities. (ibid.)

Although Koch suggested a very extensive list of internal factors that influence entry mode selection process, there are a number of other scholars who provided their input into the matter.

Brassington & Pettitt (2000) add two other internal factors, which are payback and speed. Payback means the time a company needs to generate revenue from the investment in the new international market, which affects the firm's choice of market entry mode. By speed the authors mean the time needed to reach the foreign market and they claim it also has an impact on the selection process.

Hollensen (2001) adds three more factors that potentially affect the decision process:

1. Complexity and differentiation of the product. The characteristics of the product affect the economy of scale, costs of transfer and the know-how which is already in place, for instance the licensee may abuse the technical know-how or that export of heavy and bulky goods may be too expensive and unprofitable.

2. Risk. Obviously the amount of risk a company is ready to take impacts the entry mode choice as exporting is the less risky mode of entry, while fully owned subsidiary involves the biggest amount of investments and therefore the highest risks. (ibid.) Although, it is worth mentioning that this factor is rather similar and in some way duplication of the management risk attitudes by Koch.

3. Flexibility. The factor has also correlation with the previous one. It is critical for a company to be able to adjust to the changing market situation or even

withdraw completely from the market. In this case, again, having set fully owned subsidiary it will be extremely difficult to withdraw such a considerable investment in future. (ibid.)

Root (1994) argues that firm's respond to external determinants of selecting an entry mode depends on the internal factors. In his model he mentions two internal factors.

1. Product factors. According to Root highly differentiated products with notable competitive advantages give sellers the possibility for some degree of price freedom. Such products can absorb high transportation costs and import duties while remaining profitable. On the contrary weakly differentiated products should compete on the price basis abroad which is possible only if local production is involved. Thus, high product differentiation is prerequisite of export entry while low differentiation forces a company to opt for local production and such entry modes as contract manufacturing or equity investment. If the company deals with service industry like tourism, banking, computer services, retailing, etc. it must find a possibility to perform the services in the target country as obviously, services cannot be produced in one country and exported to another (except software production). The company can organize training of local companies (like franchising) by setting own branches and subsidiaries (like branch of a bank) or by selling services directly under the contract with the customer (like technical agreements). The company can license its technology if it produces technology intensive products. If the product needs significant adaptation on a new market the company may choose entry modes with closer proximity with the target market (like subsidiary) (ibid.)

2. Resource/commitment factor. As Root says the more abundant the company's resources in capital, management, production skills, technology, etc. the more entry mode options they have. And other way around limited resources push company to choose among limited number of entry modes. Thus, company size is often a critical factor in choosing an entry mode which is also agrees with Koch's company size/resources factor. (Koch, 2001) Although not only resources but a willingness to commit to the development of the own foreign market play the role in the selection process. Highly committed mangers will select from a wider range or choosing options than those having low commitment. A high-committed company regardless of its size will more likely opt for wholly owned subsidiary or other equity modes. (Root, 1994)

Root has also summarized the impact of different internal factors as shown below:

Table 1: Internal factors influencing entry mode decision

| Internal Factors | Indirect and Agent/ distributor exporting | Licensing | Branch/ subsidiary exporting | Equity investment/production | Service contracts |
|---|---|---|---|---|---|
| Standard products | | | | X | |
| Differentiated products | X | | X | | |
| Service-intensive products | | | X | X | |
| Technology intensive products | | X | | | |
| Service products | | X | | X | X |
| High product adaptation | | X | X | X | |
| Low product adaptation | X | | | | |
| Substantial resources | | | X | X | |
| Limited resources | X | X | | | |
| High commitment | | | X | X | |
| Low commitment | X | X | | | X |

Source: Adapted from (Root, 1994, p. 16)

Lastly, one more model of factors influencing entry mode decision was proposed by Bruhno and Schilt (in Puljeva & Widen, 2007). In their model authors describe internal and internal factors that impact the choice of marketing channel. They also claim that factors should not be perceived in isolation but in constant interaction with each other. Among internal factors authors distinguish:

1. Motive. The internal motive can play a role in the mode selection process. It can be a limited home market and strong competitive products. Motives can also be indirect like temporary contacts with a foreign company. (ibid.)

2. Goal. The goals pursued by the company are important in their choice of entry mode. The company view on long-term and short-term perspective, target sales volumes and desired market share in the new country, etc. all these parameters are influential in the decision process. (ibid.)

3. Strategy. Whether a company has a specific defined strategy on the foreign market or not and whether a company works on development of such a strategy. (ibid.)

4. Product. Whether a product is standardized or requires adaptation; is there a product portfolio, etc. (ibid.)

5. Management. It is important whether a company has international experience and experience in the marketing channels; what is the degree of managerial engagement; what capabilities are required in the foreign market. (ibid.)

6. Resources. As discussed before limited resources can substantially decrease the company's options in market entry mode selection. (ibid.)

7. Customer relationships. It matters how many customer relationships a company has; whether they are homogeneous by nature or not and what work is done to develop these relationships(ibid.)

8. Networks. Lastly, the absence or presence of the contacts in the host country; how developed are these contacts; are there any other intermediaries involved, etc (ibid.)

The model of Bruhno and Schilt is rather general and in many cases duplicates the findings from the other models mentioned above. Nevertheless, this model provides an additional input into the picture of numerous internal and external factors that influence the decision process independently and interdependently.

## 3.2 EXTERNAL DETERMINANTS

Not a single company operates in isolation and hence all strategic decisions taken by the company are influenced by a number of internal and external factors, including the decision to go international and the way this will be executed. Most of the authors mentioned in the previous chapter, who suggested the models of internal factors that impact the selection of market entry mode, have also included the external factors. As discussion of the internal factors started with the model of Koch (2001) this chapter will also start with the list of external factors introduced by Koch (2001) (see Figure 1 in the previous chapter):

1. Characteristics of the overseas country business environment. Industry and company specific information is quite difficult to obtain even in the information age as this is rather sensitive information and is seldom available free of charge and it may be very expensive especially for the beginners. Firm specific information usually includes similarity and volatility of common business regulations and practices, infrastructure of the business and supporting industries, forms and

intensity of competition, development level, characteristics of the customers and protective legislation in the field and in this country, etc. (ibid.)

2. Market barriers. The most influential barriers that can affect the selection decision include: tariff barriers, governmental regulations, natural barriers (market success and customer allegiances), distribution access, country's development level, and exit barriers. (ibid.)

3. Industry feasibility/viability of MEM. In some countries some modes of entry, like fully owned subsidiary or joint ventures, might be excluded by law, sometimes only in definite industries that are of strategic importance to the country. Other entry modes, like licensing, can involve know-how dissemination risk especially if the host country has not signed the appropriate convention. Other factors, like labor cost, low skill level, restrictions of labor law may make a company not to choose joint venture or subsidiary option. On the contrary, investing in a foreign subsidiary may provide a favorable taxation, like tax holidays, and save a lot of money due to not paying custom duties. Depending on situational context some MEMs may turn out to be less viable then others. (ibid.)

4. Popularity of individual MEMs in the overseas market. Some modes of entry are more popular than others in some countries in relation to the respective industry. Experience, success of the former entrants on the market and expected product market situation influence the selection of entry mode by the company. In the most of the cases, a positive experience in some entry mode together with expectations of growing demand and good business conditions will support the choice of the mode of entry most popular there. On the other hand, if the firm had positive experience in various entry modes in other countries or markets, they may prefer to try an alternative entry mode to the one prevalent in the new market if it can enhance strategy match. (ibid.)

5. Market growth rate. This criterion is as expected very significant one in the selection process. If the target market is growing fast and this rate does not seem to be sustainable over some period of time, the company may very likely be advised to use the opportunity of direct or indirect exporting immediately. If the demand in the target market is expected to be very big but in future, then own manufacturing or marketing subsidiary may be the most appropriate option. (ibid.)

6. Image support requirements. Quite often if a company wants to create and sustain the image of the leading global firm, they have to build their presence in the leading markets. For example, a company producing industrial robots would like to get customers in Japan, while printing machinery manufacturer would be glad to acquire German or US customers. Similarly, wine suppliers would like to have French and Italian clients. Companies may license their inventions in order to increase their presence as a leading global provider of the newest technologies and impact some relevant industry standards. If the company wants to keep the same high standards in the after sale service they may choose modes that ensure high control over the distribution and service network. Requirement to support an image can be manifold in order to align with different company strategies. (ibid.)

7. Global management efficiency requirements. The more the company is involved in international activities, the more it raises its awareness to the fact that the resources are limited and therefore sooner or later it should come up with re-definition of its own global strategy. Some firms opt for diversified multinational way of operations, others choose standardized global approach. In any case critical success factors and core capabilities are the variables to be examined in the strategy elaboration process. However, it is advisable for the most of the global organizations to avoid excessive diversity of the global market. Lesser involvement may be required from the company's headquarters in some entry modes. (ibid.)

The model mentioned above from Bruhno and Schilt (in Puljeva & Widen, 2007) also elaborated on a number of external factors that influence entry mode decision. These external factors are following:

1. Market: the existence of trade barriers, laws or regulations in the target country that may forbid or restrict some entry modes.

2. Competitors. What is the competitors structure on the target market, how many of them exist, what is the size of the market share a company has, and how this competition influence the firm's choice of the marketing channel on this market. (Puljeva & Widen, 2007)

According to Bell (1995) organizations typically target neighboring countries first and then enter foreign markets with bigger "psychic distance" in terms of economic, political and cultural differences and geographical proximity. Bell (1995) also states that the parameter of "psychic distance" is a key one in the choice of exporting market. According to the research approximately 50-70 percent of the companies entered firstly “close’ markets. For instance, Finnish companies started export development with Sweden and Norway together with former USSR countries that are geographically and culturally close to Finland. Similarly, Norwegian firms started with Finland, Sweden and UK. The authors also pointed that 30-50 percent of the companies had exported to countries that are either psychologically, culturally or geographically close to them. Bell also conducted in-depth interviews and found out some important factors that have strong impact on company’s initial and following market selection decision, namely: sector targeting and client follower ship. (Bell, 1995)

Most of the researchers, who developed models that include internal factors influencing entry mode choice, have also included external factors to their models, such as Root (1994), for example. As stated above, he argued that neither factor influences the mode selection directly - it is more the correlation and interrelation of different factors result into the specific choice. The external factors provided by Root are following:

1. Target country market factors. Before entering a new market the company has to evaluate its present and projected size. Small markets are preferable for entry modes that have low breakeven sales volumes (indirect and distributor exporting, licensing) If the sales potential is high, low breakeven volume can be accepted (subsidiary exporting, investment in local production line). Another parameter of the target market by Root is competitive structure. With this regard markets can be atomistic (markets with many competitors, neither of them holding dominant position), oligopolistic (a few dominant competitors) and monopolistic (a market of a single company). An atomistic market has better conditions to be entered via exporting than oligopolistic and monopolistic markets that require only equity investments that will help to compete against market leaders. If target country has very strict restrictions on competition for both equity and exporting modes, a company may choose licensing or other contractual options. (ibid.)

2. Target country product factors. Quality and quantity of raw materials, labor resources and energy in the target country together with the quality and cost of infrastructure in this country are also factors that influence entry mode decisions. Low production cost in the target country is an argument in favor of fully owned

subsidiary in the country, whereas high production costs favor exporting as entering mode. (ibid.)

3. Target country environmental factors. Root (ibid.) claims that political, economic and socio-cultural peculiarities of the target country have great impact on the selection of entry mode, especially when it comes to governmental regulations and policies in the domain of international business. If the local government imposes restrictive import policies (tariffs and quotas), it may discourage a company from choosing export as an entry mode in favor of others. Similarly to Bell (1995) Root mentions geographical factor as an important one. If the distance between home and target country is too big, high transportation costs can make it impossible to compete with local goods. Consequently, high transportation costs make company to refrain from exporting as an entry mode and think of other methods that does not incur such costs. Economic situation in the target country is a very powerful influencing factor as, for example, equity entry modes may be impossible in the countries with centrally planned socialistic economies. In these countries companies can pick up only non-equity exporting modes, licensing or other contractual options. Additionally, the size of the economy (GDP of the country) and its level of performance in absolute figures (GDP per capita) together with relative significance of economic sectors (a percentage of GDP) are also factors to be considered. Finally, cultural distance between countries plays the role, since companies have tendency to enter countries that are close culturally. (Root, 1994), (Bell, 1995).

4. Not only target country factors but also home country external factors can be seen as external to the firm. Among home country factors Root (ibid.) distinguishes market, production and environmental factors in the domestic country. If there is a large and growing domestic market a company can allow itself to grow locally to certain extend before going abroad to penetrate foreign markets. The competitive structure on the home market also makes difference. In oligopolistic industries companies typically initiate the actions or rival domestic companies that threaten to upset competitive equilibrium. Additionally Root mentions two other home country factors, such as, high production costs in the home country in comparison to lower production costs in the host country. In such situations companies may tend to choose entry modes that involve local production, namely fully owned subsidiaries, joint ventures or licensing. The second factor is the

regulations and policies of the home government. Home government can support exporting and foreign investment by domestic firms or, on the contrary, impose restrictions on such activities. Consequently, the companies may choose the appropriate entry mode.

5. Finally, Root (ibid.) also mentions the geographic distance as a factor of influence as high transportation costs, for example, if the distance between countries is big, encourage companies to establish local presence in the target country with local production.

Root has also summarized all external factors that he studied in a table where he showed, which entry mode is favorable depending on the specific external factor. Table 2 on the next page summarizes his findings.

Table 2: External factors influencing entry mode decision

| **External factors (target country)** | **Indirect and Agent/ distributor exporting** | **Licen sing** | **Branch/ subsidiary exporting** | **Equity investment/ production** | **Service contract** |
|---|---|---|---|---|---|
| Low sales potential | X | X | | | |
| High sales potential | | | X | X | |
| Poor marketing infrastructure | | | X | | |
| Good marketing infrastructure | X | | | | |
| Low production cost | | | | X | |
| High production cost | X | | X | | |
| Restrictive import policies | | X | | X | X |
| Liberal import policies | X | | X | | |
| Small geographical distance | X | | X | | |
| Great geographical distance | | X | | X | X |
| Dynamic economy | | | | X | |
| Stagnant economy | X | X | | | X |
| Exchange rate depreciation | | | | X | |
| Exchange rate appreciation | X | | X | | |
| Small cultural distance | | | X | X | |
| Great cultural distance | X | X | | | X |
| Low political risk | | | X | X | |
| High political risk | X | X | | | X |
| | | | | | |
| External factors (home country) | | | | | |
| Large market | | | | X | |
| Small market | X | | X | | |
| Low production cost | X | | X | | |
| High production cost | | X | | X | X |
| Strong export promotion | X | | X | | |
| Restrictions on investment abroad | X | X | | | X |

Source: Adapted from (Root, 1994, p. 16)

# 4. MAJOR ECONOMIC THEORIES IN THE FIELD OF INTERNALIZATION

One may think that firms decide to initiate international trade basing on the rule of thumb or lucky combination of events. Although certain luck is important for every entrepreneur (Barney, 1986), internalization process is rather influenced by many internal and external factors of an environment. The process of a decision-making and strategy creation is well described by numerous economic theories, which been have developed throughout time. The economic research compares and illustrates how multiple internal and external factors, including available resources and capabilities influence the strategic choice of a company (Mills, Platts, & Bourne, 2003).

Long before Porter's significant contribution to the managerial research by his industry-based approach that focuses on competitive forces within an industry and affects all participants (1980), researchers have discussed the importance of environment on the strategic decision (cf. Penrose, 1959; Lawrence & Lorsch, 1969; Aldrich, 1979). Up to the beginning of 1990's the primary goal of an organization was to produce as much as possible according to the resources available. As demand was significantly higher than supply, companies aimed to transform all of their inputs into outputs (Scott, 2001). Yet, liberalization of many markets, easier access to resources and rapid growth of globalization trends led to excess production and oversaturated demand for the most consumer goods and services. In a response to changing environment firms had to change their strategies in order to be able to achieve competitive advantage and differentiate themselves from similar competitor goods. Hence, resource-based theories have gained importance (Mills et al., 2003).

Since changing economic era of 1990's, the role of institutions and institutional economics has significantly grown both in theory and practice. Institutional theory explains social and organizational behavior of firms, which is formed in a response to environmental systems and institutions (Scott, 2001). The theory also proclaims that decision-makers create their business strategies according to the institutional mechanisms (Peng, 2000).

As institutions become ever more global nowadays, internalization develops nearly into a must for organization willing to be competitive in a long-term as it is indispensable way for their growth, profitability and survival in business (Sousa & Alserhan, 2002). The globalization trend led to new views on internalization process shifting from the traditional stage approach. Whereas stage approach considers internalization as a “gradual, sequential process through different stages, with the firm increasing its commitment to international operations as it proceeded through each stage” (Elham, 2012), more recent research findings state that firms are able to initiate international trade without any preparation stages as they are “Born Global” (Baronchelli & Cassia, 2010; Gabrielsson & Kirpalani, 2004; Knight & Cavusgil, 2004).

This chapter gives a brief overview of the existing economic views on internalization strategy and explains how three economic perspectives contribute to the theory of the export research. The institution – based view, as well as resource-based view and industry-based view are going to be defined, described and discussed in a relationship to managerial decision to internationalize, whereas the main focus will lie upon exporting decisions.

## 4.1 INTERNALIZATION IN A PERSPECTIVE OF INDUSTRY-BASED VIEW

The pioneering theoretic approach to understanding strategic decision-making in organizations was introduced by Porter in 1980 as the industry-based view. The industry-based view suggests that managers make their decision according to the external factors that are set by the environment and firm’s relationship to it. Hence, external environment exerts forces to which “a firm must adapt to survive and prosper” (Gao, Murray, Kotabe, & Lu, 2010, p. 381). Alternative to adaptation strategy, a company may develop a competitive strategy, which differs from competitors and suppliers. However, in both cases industry factors determine and set boundaries to organization’s strategic behavior (Teece, Pisano, & Shuen, 1997).

According to the industry-based view firms achieve business success if they manage to spot an industry or market with lesser degree of competitiveness. Porter (1980) names five main competitive forces that determine firm’s success or failure. Those are namely: 1) bargaining power of suppliers; 2) bargaining power of consumers; 3) industry rivalry; 4) threat of substitution; 5) threat of new entrant.

Regarding export decisions, industry-based approach suggests that industry factors are the main determinants of company's internalization behavior. Literature examples include among others industry export intensity (Naidu & Prasad, 1994), industry export orientation (Campa & Goldberg, 1997), industry instability (Sakakibara & Porter, 2001; Gao et al., 2010), industry competitive rivalry and barriers to export (Bauerschmidt, Sullivav, & Gillespie, 1985), industry diversification (Heston & Rouwenhorsten, 1994) or international orientation of the industry (Lohrke, McClure Franklin, & Kothare, 1999).

## 4.2 INTERNALIZATION IN A PERSPECTIVE OF RESOURCE-BASED VIEW

According to the resource-based view the determinants of the international success of failure relies upon firm's specific differences and competitiveness. The sources of competitive advantage of the firm embrace tangible and intangible resources, which differ from the competitor firms in the same industry (Zou, Fang, & Zhao, 2003). A resource is defined 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" (Barney, 1991, p. 101). However, Barney (ibid.) suggests that the possession of only certain competitive resources systematically leads to better performance over time. A resource might be considered as a competitive if it fulfills certain criteria (e.g. VRIN – Criteria). Namely, it should have Value that leads either to cost savings or quality improvement; it must be Rare and thus not available for competitors; it is also Inimitable and Non-Substitutable (Sydow & Moellering, 2004).

The resource-based theory complements traditional industry-based view by focusing on industry competitiveness, yet researchers (cf. Wernerfelt, 1984; Zou et al., 2003) in this field believe that available resources are not homogenously distributed among competitors. Thus firms that own best assets (i.e. accumulated tangible resources) and capabilities (i.e. know-how and skills) that facilitate beneficial coordination of assets achieve better performance (Gao et al., 2010). Furthermore, competitive performance is achieved either by the ability to offer lower prices or higher quality of products/services (ibid.).

Regarding export behavior, resource-based approach claims that firm's internal competencies have an impact on a decision to export abroad. For instance, Schlegelmilch & Crook (1988) name R&D of firm and uniqueness of product as influential factors for exporting. Aaby & Slater (1989) add technological intensity to the differential variables. Aulakh at al. (2000) and Gao et al. (2010) propose to examine two main generic strategies (i.e. cost leadership and differentiation) for measuring export performance, its intensity and propensity.

## 4.3 INTERNALIZATION IN A PERSPECTIVE OF INSTITUTION – BASED APPROACH

Institutional theory describes organizational behavior from the perspective of the firm's environment, which is shaped by diverse economic, political, societal and other institutional forces (Hessels & Terjesen, 2010). According to Scott (1995, p. 33) institutions are "social structures that have attained a high degree of resilience and are composed of cultural-cognitive, normative, and regulative elements that, together with associated activities and resources, provide stability and meaning to social life.''

New institutional economics "is an interdisciplinary enterprise combining economics, law, organization theory, political science, sociology and anthropology to understand the institutions of social, political and commercial life" (Klein, 1999, p. 456). New institutional theory suggests that institutions should be viewed as controlling variables, which set "rules of the game" (ibid.) for the actors. The rules are further divided into formal and informal institutions. Formal institutions include political, legal and economic rules, which grant or prohibit legitimacy to the market transactions and actor behaviour. Formal rules can be considered as "fair play" regulations that aim to create official conditions for market transactions (Helmke & Levitsky, 2004). Informal institutions are rather codified and have implicit nature, however are believed to be more persistent and in some economies (i.e. emerging markets) more important than formal rules (North, 1997). Informal rules hence create framework for actors' interactions on the market.

In comparison to production oriented theories, institutional theory claims that firms respond to the "coercive, imitative, and normative expectations" of the environment and hence make strategic decisions based on what is legitimate within it (DiMaggio & Powell, 1983). These expectations set strategic borders for managers and other decision-makers in which they are allowed to follow their own interests and goals. Furthermore, the institutional borders are not set to prohibit economic growth of an individual. Rather on the contrary formal institutions facilitate and initiate market transactions and informal institutions reduce market uncertainty and risks. Hence, the market success of an entrepreneur is strongly influenced by an ability to interact with these institutions and to make use of them for individual ambitions (Peng, 2009, p. 33).

Pioneer institutional researchers considered mainly external institutions (i.e. rules, regulatory structures, and agencies) as driving forces. Nonetheless, academic literature now defines also competitors, industry and even other departments of the same firm as institutions. (Hessels & Terjesen, 2010) Moreover, firms that share similar environment become alike in their actions, practices and strategies over time, or in other word, befall isomorphic with each other (Gao et al., 2010). The isomorphic mechanism operates largely due to institutional pressure to which firms in the environment conform in order to fulfil legitimacy expectations (DiMaggio & Powell, 1983). According to the isomorphism theory, companies that engage into export, joint venture or licensing should possess a number of characteristics similar to host country and its institutional environment (Davis, Desai, & Francis, 2000). Hence, exporting firms have high level of isomorphism in foreign markets.

Futhermore, the more global firm's internal and external enviroment is, the larger the likelihood that firm will engage into exporting activity. With an ever increasing globalization of markets and in turn globally alike customer demand, isomoprhic pulls change multiple local environments to united global. (Gimeno, Hoskisson, Beal, & Wan, 2005) Hence, the company is forced to replicate the business path of its competitors, customers and suppliers abroad. Moreover, the larger the percentage of foreign actors in the organizations' environment (including international suppliers and consumers), the higher probability the firm will decide to expand abroad. (Hessels & Terjesen, 2010)

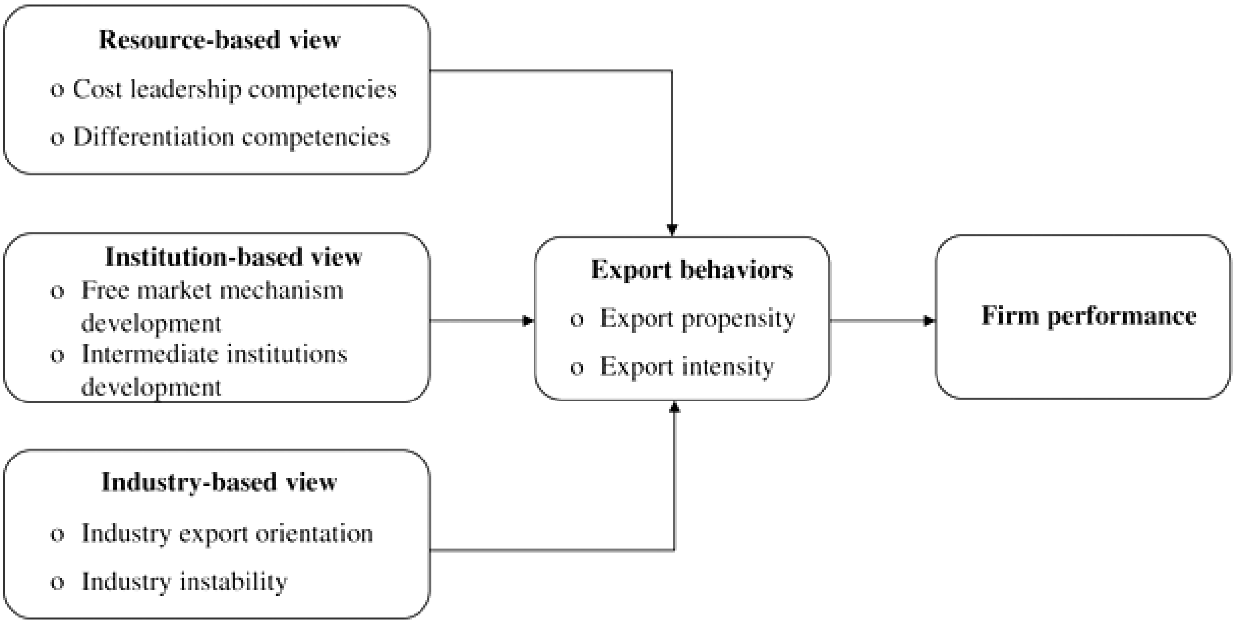
Finally, institutional theories are commonly used in research for exploring the drivers of internalization to emerging economies. One of the leading researchers in this field, Peng (2000; 2008; 2009) proves intense differences between institutional frameworks in developed and developing economies. Market institutions like free-market development mechanism, local protectionisms, consumer right protection, intellectual property rights and many others have a great impact on managerial decision-making, yet may not be present in emerging economies and hinder market success as opposed to the developed markets (Gao et al., 2010).

## 4.4 STRATEGY TRIPOD ON EXPORT BEHAVIOR

In an attempt to gain a deeper understanding of strategy creation process, companies' behavior and determination of the international success or failure, all three of the above mentioned theories should be combined together. Despite the rise of institution-based view and its growing importance on exporting decisions, the traditional industry-based approach and resource-based view complement and extend research of an organizational behavior. Peng et al. (2009) introduces a theoretical tool for exploring determinants and performance outcomes of firm's strategic behavior, which considers all three approaches. In his "strategy tripod" perspective resource -, institution – and industry – based views contribute to the creation of strategy, which in turn leads to the performance of an organization.

Gao et al. (2010) extend and apply Peng's strategy tripod (2009) to exporting behavior by proposing determinants that are directly related to the exporting decisions in each approach (see Figure 2). More precisely, according to the resource-based view firm's competencies, such as cost leadership or differentiation strategic behavior affect company's decision to engage into exporting activity. Yet, despite possession of unique resources successful exporting is hardly possible if industry is instable or has no export orientation, thus is unattractive in relation to industry-based view. Finally, the development of free market mechanisms and intermediate institutions also contributes to the success of export activity as seen from institutional-based approach. Hence, all three approaches lead to the determination of export behavior, which is further classified upon its propensity and intensity.

Figure 2: A strategy "tripod" perspective on export behavior




Source: Gao, G.Y. et al. 2010, p. 380

# 5. APPLICATION OF THE THEORETICAL FRAMEWORK TO ENTRY MODE SELECTION

This thesis aims to overview and classify most prevalent export determinants in the literature that affect the decision to internalize, as well as influence the export behavior of the firms. Previous chapters have firstly defined the most common internal and external determinants that are mentioned in export literature during last two decades and secondly discussed major economic theories that affect strategic decisions of the companies. This chapter aims to find the link between export determinants and export strategic choices under an assumption of industry –, resource – or institution – based theoretical approaches.

In order to do so, this paper reviews diverse academic papers on export performance, its intensity and propensity, and exporting behavior of the firms, as well as concentrates on the differentiation between direct and indirect export modes. The review does not include primary empirical research and thus is focused on exploring of secondary data published in the period from 1990's until 2015. Whereas the main focus of the paper lies on bringing up theoretical findings obtained by past empirical research (including main contributors in the field, e.g. Cavusgil & Zou (1994); Baldauf, Cravens, & Wagner (2000); Lages & Montgomery (2005); Morgan, Katsikeas, & Vorhies (2012)), this chapter also analyzes existing main literature reviews by Leonidou (2004), Sousa, Martinez - Lopez, & Coelho (2008), and Narayanan (2015)).

Following criteria is used for choosing studies for this paper:

1) Focus on exporting as internalization mode, excluding other forms of foreign market entry modes that require higher foreign capital investment;
2) Empirical research with a statistical analysis of one or more hypotheses;
3) Research of one or more internal/external factors and its influence on export behavior as a primary objective.

The goal of the chapter is then to summarize main research findings and to classify them in a table, which can be found at the end of the following chapter.

## 5.1 IMPACT OF EXTERNAL FACTORS ON EXPORT DECISION

First of all, the paper analyzes external determinants that affect exporting strategic decisions. External factors refer to environmental variables that have either direct or indirect influence on the company's competencies and operating behavior in the local as well as foreign markets. In the following, six main and most often mentioned external determinants in the export literature are going to be explored.

### 5.1.1 Market global orientation

Several papers proof that increased globalization of the market leads to higher export activity of local firms. Study by Hessels & Terjesen (2010) supports that increased international presence of firm's customers, competitors and suppliers increases the likelihood to export overseas. Suppliers that operate abroad may share the knowledge, as well as distribution channels with the firm. International customers stimulate foreign purchasing and hence create demand overseas. In this sense institutional theory mechanisms explain why a firm decides to export. At the same time resource-based approach gives an insight into the choice between direct and indirect export modes. Depending on the ease of access to knowledge, technology and capital in the home market, a company chooses either to export directly or through an intermediary. (ibid)

Direct exporting is usually chosen by firms that have favorable access to knowledge and technology, and have attractive production costs in their domestic market. The use of intermediaries may be omitted if production costs are low, yet the products/services are unique or new for foreign markets. Therefore, the failure risk decreases, removing the necessity of intermediary back-up. (ibid.)

Moreover, availability of domestic financing systems (e.g. easy access to banks and investors) increases somewhat the likelihood of indirect export. Nonetheless, hiring intermediaries is believed to be significantly more expensive than engaging into direct exporting without a requirement to invest into coordination, communication and monitoring activity. (ibid)

In support to the findings of Hessels & Terjesen (2010), a study of Buck, Liu, Wel, & Liu (2007) can be brought up to illustrate the impact of globalization not only in developed markets (i.e. Dutch) but also in transitional economy. The three-year long study in the world's largest transitional economy, China, has revealed that larger concentration of multinational companies on the market generates higher possibility of local firm's becoming exporters. Isomorphic pulls from multinational companies lead to the need of imitation by local firms, increasing within export propensity and intensity. Moreover, presence of global players on the market improves the access of local firms to foreign information, knowledge and experience.

The decision to export either directly or indirectly correlates with firm's capabilities, as well as common exporting behavior of multinational firms. The access to known intermediaries and coordination costs determines the choice as well. As seen from an institutional based view, Chinese public policy traditionally intervenes into market mechanisms and sets barriers for free export development. However, in spite of unfavorable market conditions, exporting trends are being steadily developed. (Buck et al., 2007)

### 5.1.2 Political and legal framework of local and host markets

Another important determinant for exporting decisions is political and legal framework in which firms operate or wish to trade. It is common knowledge that politics can foster their economies, yet also hinder healthy development by following wrong incentives either unintentionally or on purpose. The degree of governmental intervention into market mechanisms may also have a direct influence on exporting decisions. Moreover, governmental protectionism may prohibit any kind of export at the whole.

Nonetheless, closed market economies nowadays are rather exception to the rule. On the contrary, almost all developed and most emerging countries support local and international exporters and contribute to the development of export/import activities that add up to national GDP growth. It is beneficial for governments to promote export as exporting firms usually stay longer in business than non-exporting, pay higher taxes, achieve higher employment growth and show greater productivity (Dalley, 1997). In return to firms' engagement to participate in exporting, states and federal governments design diverse public measures that assist new and existing entrepreneurs in gaining required knowledge, experience and financial base for successful international trading. The assistance programs include tax incentives, export financing, counseling, as well as apart from financial aspects trade shows, exporter committees or sales leads (Genctuerk & Kotabe, 2001).

The success of exporting firms depends among other factors on public policies that initiate exporting behavior. This is especially true for emerging markets, which still lack experience of international trade and hence need governmental support in increasing their competitiveness (Alvarez, 2004). Support may be exerted in form of financial aid but also as diverse public programs, such as trade shows, trade missions, committees shows or other export promotion efforts. According to the study of the Chilean market, exporter committees proved to have a positive and significant impact on improving export performance of local exporters (ibid.).

Slightly older study by Wilkinson & Brouthers (2000) showed a positive relationship of direct exporting and trade shows. Hence, governments that invested in trade shows had higher probability of increasing direct exporting behavior among local firms. In addition, researchers found that trade missions do not contribute positively to the high-tech growth exports, as well as that establishment of foreign offices do not have any significant relationship with export activity.

Similarly, Genctuerk & Kotabe (2001) have indicated that government assistance in exporting behavior contributed to export success. Nevertheless, the success depends on the relevance of export assistance programs depending on the level of company's involvement into different levels of export. Interestingly, many of governmental assistance programs do not have any impact on the export sales. One of the reasons for that implication is lack of perceived contribution of such programs to entrepreneurs. This is especially the case for SME, which have worse access to information promoted by export development institutions. Even so, Genctuerk & Kotabe (2001) demonstrate a positive correlation between export programs and firm's competitiveness abroad, and profitability. Hence, governmental programs may contribute to the exporting propensity if those are correctly designed, communicated and matched with performance goals. In favorable local market conditions and governmental supports firms will rather decide for direct export than indirect due to the unwillingness to pay transaction costs.

Yet, not all studies have identified a positive impact of governmental export promotion activities on exporting behavior of firms. Keesing et al. (1991) argue that public export promotion policies in emerging markets are seldom successful and do not contribute to the growth of export, either for local firms trading overseas or for attracting foreign exporters to local markets. Lederman et al. (2010) support this opinion by believing that such incentives commonly fail in developing countries due to the lack of strong leadership, limited financial base, high degree of bureaucracy and negative governmental intervention into business processes.

As already mentioned above, export programs may fail due to different reasons:

- the firm may not recognize the value of assistance or its level (dimension) of export performance may not match governmental requirements for participating in a program (Genctuerk & Kotabe, 2001);
- in reality the program contributes weakly to the production and supply obstacles of a firm and is unable to support it in reaching target market requirements (Keesing et al., 1991);
- despite export assistance programs, governmental resistance to free exporting remains strong, while export products/services are substituted through import (Lederman et al., 2010).

### 5.1.3 Market barriers

As mentioned in the Chapter 2, exporting is one of the simplest forms to enter a foreign market. Therefore, exporting is often chosen by SME's, which have less knowledge and resources needed to start successfully trading overseas than large international conglomerates. Both indirect and direct exporting modes require less capital investments and include fewer risks than other modes of internationalization. Despite those benefits, many companies still do not consider exporting as the best form of expanding trade abroad due to numerous market barriers (cf. Lages & Montgomery, 2004; Agndal & Chetty, 2007).

There are numerous research contributions on defining and classifying market barriers (cf. Leonidou, 2004; Artega- Ortiz & Fernandez-Ortiz, 2010; Kneller & Pisu, 2011). In general market barriers include political, social, economic, trade, cultural and environmental constraints in export market that hinder successful business development overseas.

Referring to the model developed by Leonidou (2004) based on the enormous literature review of 32 empirical studies that were conducted during 40 years (1960 – 2000), market barriers can be classified into two main categories: internal and external barriers. Whereas internal barriers refer to characteristics of the product/service or company's management aspects (and hence are described in the following Chapter 5.2), external factors refer to the environment, in which company operates or is willing to operate. External factors are further subdivided into four categories: 1) procedural; 2) governmental; 3) task; 4) environmental.

Governmental barriers are similar to the political and legal framework, which was introduced in the previous chapter (see Chapter 5.1.2), and thus will be not further described.

Procedural barriers are defined as “operational challenges faced by firms and include unfamiliar techniques and/or procedures, communication barriers and slow collection of payments in the market abroad” (Leonidou, 2004, p. 292). Ramaswami & Yang (1990) suggest that consulting and advisory firms in the host market may help to over those barriers by providing market information and proposing expansion strategies applicable on the particular market. Hence, it can be concluded that procedural barriers push companies to seek support from intermediaries or foreign offices and consequently choose indirect exporting modes.

Task barriers represent dissimilar customer demand in the host country. In order to satisfy customer requirements abroad companies need significant amount of time and financial resources to offer a matching product/service (Leonidou, 2004). At the same time growing global competition exerts immense pressure on firms to act faster, shorten product life cycles and offer differentiated products (Kotabe & Murray, 2004). Traditionally, companies with limited knowledge about new market and experiencing lack of time for thoughtful market research seek support by intermediaries or market research companies in the host market. Hence, indirect export mode is preferred.

Today, however, globalization trend through its isomorphic pull on institutions has notably changed global market characteristics. As markets become ever more global, the majority of the customers disregarding their culture, country of residence, beliefs and norms wish for the same goods around the globe. Task barriers may within be overcome through changing strategic behavior to global, polycentric, regiocentric or geocentric strategies (Wach & Wojciechowski, 2014). Hence, an ability to achieve competitive advantage with the same goods as in home market eliminates third party channels and increases the likelihood of direct export mode.

Finally, external environmental barriers include diverse economic, political-legal and socio-cultural institutional forces (e.g. currency fluctuations, supply and demand differences, market rivalry, government and policy makers) (Narayanan, 2015). Firms experience difficulties when facing environmental barriers due to the lack of knowledge about host market (Neupert, Baughn, & Lam Dao, 2006). Yet, similarly to task barriers, globalization and growth of multinational market players reduces certain uncertainties and consequently leads to the favorability of direct export mode opposed to indirect method (Ramaswami & Yang, 1990).

### 5.1.4 Market growth rate and development

General conditions of local and host markets have significant effects on the development of an export activity. It is obvious that favorably policy and economic reforms affect growth not only of internalization activity in particular, but also of a country in general. Moreover, development of host market economics may have direct impact on local market and its growth and vice versa, especially in case of exporting of natural resources (i.e. oil, gas, coal).

Rehner et al. (2014) analyze the relationship between economic growth in Asian regions (especially in China) and increase of Chilean exporting activity. Namely, Chile, who trades copper with China, has experienced a significant export and market growth during last 20 years (1991 – 2010) mainly due to successful trading with China, but also due to high commodity prices and attractive US dollar exchange rate. At the same time, demand for copper in Asian countries has significantly risen and hence directly impacted the rapid need for increased exports from Chile. Therefore, growth of the foreign market generates significant macroeconomic income for local market, as well as stimulates active exporting. In addition, export of natural commodities leads to the growth of national GDP. Nonetheless, strong dependence on the particular export good as a main national source of income may be dangerous for economics at a whole, as well as has severe consequences on GDP in times of economic crises (e.g. gas/oil dependency in Russia; copper/mining in Chile).

Furthermore, market development within the country may significantly affect firm's willingness to export. As seen in the previous example, economic growth and export activity are closely related. However, overall market development, including government debt, inflation, exchange rate and other economic factors have comparable effect on export activity. A study about Greece economic recession of recent years demonstrates unilateral causal relationship between exports and economic growth and between growth and external debt in the short-term. Extremely high external dept in 2011 had a massive impact on Greece market development, as well as the ability of local exporters to continue their overseas trading activity. Yet the study finds no link between exports and external debt nor in the short or long-term perspective (Dritsaki, 2013). Nonetheless, Dritsaki (ibid.) suggests that exports are causing economic growth and their expansion could help overcome financial difficulties, including decrease of debts.

Hence, correlation effect between export and market development exists for both variables. Growing exports may signalize improvement in economics, or on the opposite, economic development may lead to increased exporting activity. In general, favorable economic environment leads to better performance of companies in domestic market, which consequently have more resources to invest in foreign exports (Robertson & Chetty, 2000). Nonetheless, the development of the market needs to match strategic position of the firm. An empirical research by Robertson & Chetty (2000) has shown that favorable economic development of the export market is particularly important for firms with conservative strategy, whereas entrepreneurial firms will equally perform both in hostile and benign environments. Entrepreneurial companies are believed to be more risk-friendly, proactive and innovative than conservative ones. So while conservative decision-makers find it hard to show high export performance level in hostile or instable markets, entrepreneurial firms outperform such by creating a better strategic fit to market. Both type of companies, however, have highest export performance level under condition of benign domestic market (ibid.) Hence, the decision between direct and indirect export mode depends on the hostility of the host market: the more competitive and instable the market is, the larger the probability of indirect exporting. The opposite also holds true for the direct export mode.

#### 5.1.5 Business environment

Business environment consists of diverse external factors that foster or hinder export performance without an ability of firm to intervene. In other words, a company is not able to change the external environment of an export market, yet it can find a strategic fit and adopt to the market conditions. It is generally suggested that similarity between domestic and foreign markets enlightens trade and supports export performance. (Sousa, Martinez - Lopez, & Coelho, 2008)

Apart from economic growth and development (Chapter 5.1.4) and political/legal aspects (5.1.2), export literature often mentions cultural similarity as a vital external determinant of export success (cf. Lee, 1998; Shoham, Evangelista, & Albaum, 2002; Lado, Martinez-Ros, & Valenzuela, 2004). Cultural similarity is measured in terms of customs, religion, beliefs and religion (Baldauf, Cravens, & Wagner, 2000). Culturally similar markets reduce market knowledge gaps and associated risks. Firms exporting to culturally close markets assume comparable customer demand, market information and trade modes. Decision-makers also expect fewer difficulties in the host market and in relation to this fact are able to better create and adapt company's strategy to the foreign market requirements.

Furthermore, geographic/physic similarity does not necessary equal to cultural similarity. Lado et al. (2004) provide an example that Spanish exporting companies are culturally more close to Latin America than to Western Europe despite differences in physical distance. Thus exports to Latin American markets can be considered as less risky, as well as allow product standardization and require lesser degree of strategic and product adaptation. This leads further to a conclusion that exporters expect direct exporting mode to be less risky.

Nonetheless, some researchers (cf. Baldauf et al., 2000) argue that cultural similarity and export performance are not dependent variables. Authors believe that export literature lacks common scale to measure cultural dimensions across markets. Number of cultural theories (cf. Hofstede, 1980; GLOBE study by House et al., 2004; Lewis, 2006) is being frequently used in cultural research, yet each proposes different determinants and scales for measuring cultural differences. As Baldauf et al. (2000) applied scales with diverse cultural variables, diverging results had been found. During their survey of Austrian ML companies, no relationship between cultural effects and export performance was confirmed. One of the possible explanations for independency of variables is that Austria as a small open economy is strongly influenced by international trade, which increases probability of experienced exporters on the market (i.e. most of surveyed firms operated more than 22 years). Nonetheless, relaxation of international market borders creates immense competition also for experienced trading firms. (ibid.)

Additionally to cultural similarity, economic similarity may also foster export performance (Balabanis & Katsikea, 2003). As already mentioned in the previous chapter market development and growth rate are important determinants for exporting firms. However, despite market growth and rapid development, some exporting destinations may be so economically different that exporting activity will be very limited, if possible at all (Abidin, Bakar, & Sahlan, 2013).

For illustration, an example from intra-Muslim countries can be brought up. Although the Middle East countries and Malaysia are similar in their religious beliefs and cultural values, the exporting performance is relatively low due to economic and institutional distance (Abidin et al., 2013). Despite Malaysian competence to export Halal food products, Islamic Banking and other financial services, tourism, constructional and educational services to Gulf Cooperation Council (GCC) countries, including UAE, Bahrain, Saudi Arabia, Oman, Qatar and Kuwait, political complexities and low level of openness to external environment hinders export growth (Abu-Hussin, 2010). Moreover, being economically more powerful than Malaysia, the Middle Eastern countries are not willing to contribute to its trade integration.

Last but not least, pressure of the environmental diversity (including cultural and economic dissimilarities) can be minimized by adopting entrepreneurial export behavior. Hence, technological leadership, frequent product innovation, risk-friendly investment decisions and aggressive market strategies increase probability of successful direct export behavior. (Balabanis & Katsikea, 2003)

### 5.1.6 Market/industry competitiveness

Last external determinant, which is brought up in this paper, is market or industry competitiveness. This determinant reflects the industry-based approach, which claims that structural forces (i.e. industry mechanisms) play a significant role in shaping general firm performance (Porter, 1980) and export propensity in particular. Export market competition is described as the level of rivalry between market players with the goal to attain larger economic returns in the particular industry (Lages & Montgomery, 2005).

Researchers have obtained diverse results concerning the impact of market competitiveness on export performance. Some (cf. O'Cass & Julian, 2003; Lages & Montgomery, 2005) claim, that degree of market competitiveness has a positive influence on export activity. Yet, others (e.g. Morgan, Kaleka, & Katsikeas, 2004) reject the relationship between the two variables and claim that industry competitiveness only contributes to export strategy choice and design.

On the one hand, competitive environments are characterized usually by more developed industries that encourage firms to perform better and to easier develop export activities. Lages & Montgomery (2005) suggest that trading on competitive markets makes managers more knowledgeable about market opportunities and threats, as well as requires them to react faster to competitor actions and strategies. Authors add that a certain degree of management's international experience is required to gain benefits from trading on such markets.

On the other hand, markets' lack of competitiveness may be associated with instability of the industry, especially in the developed countries (Austin, 1990). Hence, market competitiveness fosters export growth, despite higher level of rivalry.

## 5.2 IMPACT OF INTERNAL FACTORS ON EXPORT DECISION

After the analysis of external determinants, this paper concentrates on internal factors of the firm that impact its exporting behavior. Internal factors refer to the company's capabilities, resources and other characteristics. In the following, seven main determinants are analyzed on the example of numerous research papers that have been conducted in the past.

### 5.2.1 Product characteristics

Product characteristics as mentioned in Chapter 2 have an impact on the choice of market entry mode. The study of Winkler, Dibber and Heinzl (2009) analyzed the entry mode decision for software companies and the influence of specific software product characteristics on this decision in the light of knowledge-based view. The authors assumed that as long as software is highly intangible asset and the final product design may significantly differ from anticipated product design, it is a unique product as it shows close interdependence between product and service characteristics, therefore it has to be adapted to the local customer needs and requirements. Thus, they hypothesized that higher degree of technical, business process and functional specificity, as well as share of complimentary services and localization requirements of a software product increases the likelihood of fully owned subsidiary mode.

To test the hypothesis a survey among medium sized German enterprises was conducted. The outcomes of the study prove the dependence of entry mode choice on product characteristics. In particular, the more specific the required knowledge of business processes and functionality, the more likely is ownership based mode, as well as the need to provide complimentary services is an indicator of high degree of ownership mode. In case software product requires a lot of changes and adaptations software companies tend to cooperate with local distributors choosing export modes. (Winkler, Dibbern, & Heinzl, 2009)

Another research that studied the impact of product characteristics and their influence on entry mode decision (in particular the choice between direct and indirect exporting) was conducted by Marino, Castaldi, Sengupta and Silveran (2001). The authors compared the characteristics of wine exporters in U.S. that chose entering foreign markets via representatives and those who decided to enter the foreign market directly via foreign wholesalers and retailers. To do the research authors used a mailed survey instrument, which was sent to wineries in different U.S. regions that are listed in the Wines and Vines Directory. Totally 110 wineries were studied. As an outcome of the research the scientists found out that if a product can be differentiated at the processing and manufacturing stage with the help of unique ingredients or packaging, the indirect exporting may be a long-term solution to a foreign market entry of wine producers. (ibid)

However, Chung (2001) in the study of New Zealand exporters confirmed the hypothesis that a firm whose major product line in the host market is highly differentiated from that of its competitors is likely to adopt a direct export mode.

### 5.2.2 Firm's international experience

Another powerful influential factor when it comes to foreign market entry is an experience of the company management. Nevertheless, diverse academic papers show inconsistent results regarding the direction of correlation between managers' international experience and export performance. This controversy is often brought up in diverse literature reviews considering exporting performance (cf. Dean, Menguec, & Myers, 2000; Leonidou, 2004; Sousa et al., 2008).

So, for example, Baldauf et al. (2000) state that experience and exporting behavior are negatively correlated due to the fact that younger exporters have higher pressure from more experienced competitors on the local and host markets and are thus forced to concentrate more actively on the foreign sales to achieve competitive advantage. Lado et al. (2004), on the contrary, suggest that the long-term players on the export market have greater experience and knowledge, which helps them to enhance their operating markets, export more proactively and choose direct export modes.

Also, Sala and Yalchin (2012) had proposed a positive relationship between the experience and exporting behavior. The authors studied on the sample of Danish firms how managerial resources and capabilities influence firms' selection into entering international markets. Their findings revealed that managerial experience should be considered as important as productivity or fixed costs of selling goods abroad while determining company's selection of international market. Managerial resources are crucial to overcome liability of working in a foreign market.

Another paper that studied not only importance of managerial experience but also its influence on the specific entry mode choice is the work of Chun and Enderwick (2001). Studying the influence of managerial experience the authors assumed that companies that have close experience with the host market are more likely to choose foreign direct investment entry mode, while those without this experience are more prone towards indirect exporting entry mode. The hypothesis was partially confirmed on the sample of New Zealand companies with business experience in Taiwan.

Other studies (Klein & Roth, 1990) presented similar findings regarding the negative relationship between managerial experience and exporting mode of market entry decision. However, another study of Chung (2001) did not confirm that firms having cumulative international business experience are more likely to adopt direct exporting mode of entry. Hence, the managerial experience should be considered as controversial determinant, which requires further investigation.

In addition, not only the prior exporting experience has an impact on trading behavior but also professional and educational background of a manager. Possession of the foreign languages, especially of the host market, significantly increases the chances of successful exporting (Dean et al., 2000). Hence, firms are likely either to contract an intermediary in the host market when exporting indirectly or to employ an exporting manager with the needed language skills if a company prefers direct export. Nonetheless, prior research on professional background has also showed inconsistent results. Whereas Lages & Montgomery (2005) have indicated a positive relationship of manager's international experience on the strategic exporting behavior due to better perceived understanding of foreign market structures, Contractor et al. (2005) denied the relationship between two variables. According to their study, conducted in the field of software engineering, international experience does not play a role in some industries, where a unified or coded language of conduct is applied. This leads to the fact that globalized and similar markets do not require any particular international experience or that local knowledge can be applied to the host market.

### 5.2.3 Organizational motives and goals

The list of internal factors that impact entry mode decision should be supplemented with motives and goals that are pursued by the company. The recent study (Ďaďo, Wiktor, & Żbikowska, 2015) of Polish exporters aimed to assess the strategies in entering foreign market depending on company motives. All motives were divided into three groups: market related, economic and legal motives. A number of hypotheses were elaborated to find out what are the main and subordinate motives to choose a market entry mode and the most commonly used modes by Polish businesses:

1. The most important group of reasons to go international is market related;

2. Political and legal reasons are only slight determinants of market entry strategy choice;

3. Direct export is the main entry mode of Polish exporters.

To test hypotheses authors used both quantitative and qualitative approaches. As a result of the study was revealed that market-related factors are decisive in the selection process. Respondents indicated as main motives the possibility to acquire customers in countries with large population (almost half of the respondents) and their proximity to Poland's territory. They also frequently mentioned client's interest in the company's production as the important motive. The economic motives were reported as slightly less significant, among them the following were mentioned: more effective use of production capacity, and opportunity of additional profit generation. Finally, the political and legal factors were mentioned as least significant motives. (ibid)

These findings confirm the initial hypothesis of export drivers. When it comes to the exporting options of Polish entrepreneurs the majority of them chose direct export as an entry mode. Direct export was predominantly chosen by small businesses as in this case: the necessity of engaging the big part of company assets is compensated by relatively high profits and closer relationships with clients. The selection of direct export might have also resulted from great opportunities offered by the internet in dealing with international clients. (Ďaďo, Wiktor, & Żbikowska, 2015)

### 5.2.4 Firm size

A big amount of studies investigated the connection between exporting mode decision and size of the company. For example O'Cass and Ngo (2008) assumed that small firms do not have enough resources to execute resource intensive entry mode like wholly owned enterprise, thus they pursue low risk and investment entry modes, namely exporting. The respondents of this survey were senior managers of the companies headquartered in Hong Kong from different industries. The results of the study approved the initial hypothesis and were supported by findings of Dad'o et al. (2015) who also found out that exporting is the most appropriate and commonly used solution for small companies. While the above mentioned studies gave the rationale for choosing an exporting mode depending on the company size, another study by Abel-Koch (2010) researched the influence of the firm size on the choice between direct and indirect exporting. The author assumed that there is a negative relationship between firm size and the share of indirect export in the total export. The result of the study can be seen in the following Table 3.

Table 3: Direct and indirect exporting options depending on the firm size

| | Firm size measured by employees | | | |
|---|---|---|---|---|
| **Export status** | $< 20$ | $20 - 99$ | $\geq 100$ | Total |
| No exports | 65% | 39% | 18% | 39% |
| Indirect exports only | 11% | 12% | 13% | 12% |
| Indirect and direct exports | 8% | 17% | 25% | 17% |
| Direct exports only | 15% | 32% | 44% | 31% |
| Total | 100% | 100% | 100% | 100% |
| Number of firms | 201 | 309 | 238 | 748 |

Source: Abel-Koch (2010)

One can notice the relative share of the firms using indirect export modes declines with the company growth, opposite to those who export directly. Consequently, small companies prefer exporting as an entry mode as long as it is associated with lower level of investments and risks for the company and the share of companies using indirect exporting declines as the size of the company goes up in favor of direct exporting. (Abel-Koch, 2010)

### 5.2.5 Firm productivity

Another internal factor, firm productivity and its influence on the export mode choice was studied in the work of Krueger (2009) who assumed that less productive firms have a tendency to use trade intermediaries rather than exporting directly. If the company exports directly, sunk costs that appear before entering a foreign market have tendency to be relatively high, thus, as author assumes, only highly productive organizations may find it profitable to enter the foreign market directly. At the same time, firms whose productivity is low may prefer to export their goods through different intermediaries, i.e. indirectly, which involves lower sunk costs and higher variable costs at the same time, due to the fees paid to the export intermediaries.

To test this hypothesis the author used data from Centre for the Study of African Economies at Oxford University, which was gathered from Ghanaian manufacturing companies in the period from 1991 to 1997. The data was collected in separate surveys that contained firm specific information on investment, inputs, capital, outputs, workers of the firm, etc. In the frame of the research 278 companies were interviewed with 253 usable surveys available. Longitudinal data for the seven years period was gathered for 191 companies. The companies represented different industries from bakery to metal producers from various locations. (ibid)

The author applied econometric analysis to the data and found out that direct exporting and exporting with the help of private trading agencies are two most important ways of exporting for Ghanaian producers, whereas government trading companies play non significant role in export intermediation. The hypothesis of the study was also confirmed proving that in the studied sample low productivity companies tend to export their merchandise through intermediaries, whereas high productive ones tend to export directly. (ibid)

### 5.2.6 Export commitment

Export commitment is another frequently mentioned internal export determinant in the literature. In their review of 52 papers, published from 1998 to 2005, Sousa et al. (2008) have indicated the largest number of academic contributions (i.e. 10 articles) to export commitment in the category for management characteristics. This determinant is essential for successful exporting due to the fact that committed top managers are more likely to plan export strategy precisely, as well as invest adequate amount of human and financial resources or in other words commit available resources to exporting operations (O'Cass & Julian, 2003). Hence, management and resource commitment are highly interrelated. Researchers believe that carefully planned export strategy decreases the entry risks, helps to create marketing strategy and in turn increases export activity.

On an example of 238 Australian direct exporters, O'Cass & Julian (2003) have tested the assumption whether management and resource commitment in a combination with other determinants (i.e. provided support to intermediaries; amount of resources) influences the choice of entry mode. Research design was largely adopted from previous study by Cavusgil & Zou (1994), who measured resource commitment as management commitment, as well as planning and distributing available resources for export development. Results confirmed the hypothesis, meaning that firms that are committed to exporting strategy and are able to match their competitive resources with external market opportunities engage more eagerly in direct exporting and show overall better export performance. However, external market characteristic play a foremost importance in shaping exporting behavior. (O'Cass & Julian, 2003)

As mentioned above the basis for the research of O'Cass & Julian (2003) study was taken from the academic contribution of Cavusgil and Zou (1994), who have proposed "a conceptual framework of export marketing strategy and performance" (p.1). Through their analysis of 202 exporting firms in the USA, authors identified three main determinants of successful exporting: managerial commitment, export marketing strategy and firm's international competence. As the goal of the study was to explore the degree of company's adaptation through product or promotion strategies and management's capability to implement those strategies, the results rather refer to direct exporting approach. (Cavusgil & Zou, 1994) However, if firm's management is committed to overseas trading through an intermediary, export commitment term can be understood as readiness to trust and share own vision with a third-party abroad. Therefore, export commitment is a decisive determinant for successful direct or indirect exporting, although is notably harder quantifiable and hence measurable and evaluated than most of the above mentioned determinants (e.g. firm size, productivity, product characteristics).

### 5.2.7 Export marketing strategy

One of the last determinants to mention in this paper is an impact of export marketing strategy on company's overseas trading success. Export marketing strategy is closely interrelated to management commitment (see 5.2.6) and organizational motives (see Chapter 5.2.3). Namely, organizational motives create a framework for marketing strategy, which in turn requires management's commitment in implementing it (Cavusgil & Zou, 1994).

As discussed in Chapter 4, there are multiple theoretic explanations how a firm's strategy is created. In general, industry –, resource – and institution – based views argue that strategy results from firm's ability to employ its resources and capabilities in a competitive market under assumption of environmental factors with a goal to achieve competitive advantage in a long-term. In this scope, marketing strategy defines and represents company's actions to consumers and has a significant impact on how firm is perceived in the local and host markets.

In general, two main export marketing strategies are actively discussed in the literature: adaptation or standardization. The choice of marketing strategy in a relationship to exporting success has been characterized by quite diverse and partly contradictory results in the literature. On the whole it is believed that "appropriate level of market adaptation if a key determinant of market performance" (Lado, Martinez-Ros, & Valenzuela, 2004, p. 574). Yet, export literature provides conflicting suggestions for firm's optimal adaptation level.

Degree of adaptation strategy is facilitated by firm's international experience, product uniqueness, cultural fit of the product and the competitiveness of the host market. Brand familiarity of export customers on the opposite negatively influences the likelihood of adaptation strategy. (Cavusgil & Zou, 1994) Already in the 1990's, literature (cf. Levitt, 1983; Cavusgil et al., 1993) suggested that global products and their promotion require less adaptation than unique ones. Ever increasing globalization and growth of international conglomerates leads to further internalization of the markets (Morgan, Katsikeas, & Vorhies, 2012) and thus standardization of export marketing strategies. Nevertheless, at the same time recent studies (Lado et al., 2004; Morgan et al., 2012) promote that adaptation strategy or rather strategic fit to the market helps to achieve better competitive advantage and improve export sales volume.

Similarly to findings of Cavusgil & Zou (1994), Lado et al. (2004) suggest that strategic fit between exporting market and firm's strategy defines the degree of adaptation and leads to the need of identification of the right product/service to adapt. In order to test the degree of required adaptation of marketing strategies, Lado et al. (2004) have analyzed 2264 Spanish exporters in food, beverages, tobacco, textile, metallic and other industries trading with six different markets, including the EU (94%), Latin America (43%), Asian – Pacific (37%), rest of Europe (35%) and North America (34%). Notably, among the sample population, only 17% of companies had foreign capital participation. Hence, majority of the companies trade either as direct or indirect exporters.

The results showed that price and promotion adaptation depends on the export market characteristics. For instance, exporters to Latin America tend to simplify exporting goods in order to be able to reduce price and implement low price strategy. At the same time, product features exported to USA are enhanced to adapt differentiation strategy and achieve competitive advantage by better services or other unique characteristics of export goods. When exporting to the EU, mixed-price strategies are applied resulting from the high cultural difference between European nations. This also holds true for promotion strategy. Whereas investments in foreign promotions positively contribute to the export sales, geographically or economically close markets react weaker to promotional effort of the companies as they usually are aware of the brand. Therefore, standardized promotion strategy turns to be effective in such markets.

In addition, O'Cass & Julian (2003) state as well that adaptation of marketing strategy significantly depends on the industry and market characteristics. Each export marketing strategy requires a match to the operating market, whereas no single strategy can be identified as globally effective. This stands in line with resource-based and institution-view approaches.

Their study indicated that positive results on export performance were both achieved from adaptation and standardization strategies depending on the industry. More generic industries (e.g. mining, chemistry) are likely to be promoted by standardization marketing strategy; other industries (e.g. electronics, metal-working) on the opposite require more adaptive approach. However, previous results indicate that electronic and technologically – intensive products as non generic products (i.e.

opposite to findings by O'Cass & Julian (2003)), should be indeed standardized across export markets (Levitt, 1983; Cavusgil et al., 1993). Moreover, technologically – intensive products usually require stronger collaboration in case of indirect exporting. Due to the complexity of the goods, as well as their higher production cost, firms need to establish close relationship with their intermedieries so that marketing strategies in the export markets will be communicated properly. (Cavusgil & Zou, 1994)

Interestingly, Lado et al. (2004) also suggest that indirect export mode is easier to execute in geographically similar markets, although familiar markets are easier to penetrate and hence no need for intermediary is needed. At the other hand, through the support of the third-party exporter indirect exporting establishes long term business relationships on the export market, which are easier to develop and control with partners in a shorter psychic distance (Cavusgil & Zou, 1994). However, analysis of the relationship between export mode and export performance has also inconsistent results in the literature and requires further structuring (Leonidou, Katiskeas, & Samiee, 2002).

Furthermore, previous studies suggested that degree of adaptation is positively correlated to the extent of international experience (Douglas & Craig, 1989; Cavusgil et al., 1993), despite the fact that one may expect that internationally successful firms will implement standardized marketing strategy across all exporting markets. Douglas & Wind (1989) claim that internationally experienced successful companies are able to better understand market needs and consequently adapt their marketing strategy to the host market. Moreover, experienced firms are usually capable to allocate available resource more optimally than inexperienced, who seek maximum match between own competencies and export market conditions. Finally, it is important to mention that current theoretical researchers have been using the differentiation between product/promotion adaptation and standardization less frequently. Instead contingency theory has gained increased attention (Albaum & Tse, 2001; Hultman, Katsikeas, & Robson, 2011; Morgan et al., 2012), which claims that optimal strategy depends on firm attributes and their match to external environment. These findings were already suggested by previous studies (see above).

Despite the need to develop consistent research findings in scope of strategy and export performance, studies focusing on contingency theory also propose diverse results. Shoham (1999) has suggested a negative relationship between promotion standardization and export performance in terms of export sales volume and profit margin. Albaum & Tse (2001) have found no relationship between positioning adaptation and performance at all. On the contrary, Solberg (2002), Okazaki, Taylor, & Zou (2006) and Sousa & Lengler (2009) propose a positive effect of standardized promotion on export performance. The study of Hultman et al. (2011) with a sample of 336 Swedish exporters in machinery, transport equipment, chemical, wood and paper manufacturing industries had shown a positive relationship between product adaptation and export performance in case of short-term and low intensive exporting strategies. However, further impact of the product and promotion adaptation under the assumptions of contigency theory need further research developments.

## 5.3 SUMMARY OF EMPIRICAL STUDIES ON EXPORT STRATEGY AND ITS DETERMINANTS

After external and internal determinants were defined, described and discussed, an overall overview of empirical studies in a compact view can be presented in form of a table (see Table 4). Table 4 represents an abbreviated literature review of all main studies discussed in this paper, including reference to the economic theory, brief data and sample description, as well as main findings. The goal of the summary is to illustrate diverse and partly inconsistent results obtained in the export research during two past decades: whereas some determinants have similar influence on the export behavior among different studies, other determinant have led to dissimilar correlation effects on export behavior and performance or have shown no relationship between the variables at all. This conclusion leads to the need of further empirical research in the field of export determinants. More detailed conclusion follows in the next chapter (see Chapter 6).

Table 4: Export determinants: an abbreviated literature overview

| | Determinant | Theory | Studies | Sample | Key Findings |
|---|---|---|---|---|---|
| **Internal** | **Product characteristics** | Resource-based view | Winkler, Dibbern, Heinzl (2009) | German, medium-sized software firms. 1426 providers of pre-packaged software with 20 to 500 employees in Germany or 5 million Euros to 50 million Euros sales in Germany | The more specific the required knowledge during the sales process regarding the underlying business processes and functionality of a software product is, the more likely software firms will choose company-owned channels. If software products require a lot of changes to reflect the language of a foreign market, software firms are more likely to cooperate with local distribution partners. |
| | | | Marino et. al. (2001) | 133 wineries in California and the Pacific Northwest | If a product can be differentiated at the processing and manufacturing stage with the help of unique ingredients or packaging, the indirect exporting may be a long-term solution to a foreign market entry of wine producers. |
| | | | Chun (2001) | Postal survey of 115 New Zealand companies doing business in Taiwan | A firm, whose major product line in the host market is highly differentiated from that of its competitors, is likely to adopt a direct export mode. It was not confirmed that firms having cumulative international business experience are more likely to adopt direct |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | exporting mode. |
| | **Resource and management commitment** | Resource- based view | O'Cass & Julian (2003) | 238 Australian direct exporters | Firms that are committed to exporting strategy and are able to match their competitive resources with external market opportunities engage more eagerly in direct exporting and show overall better export performance. |
| | | Contingency theory | Cavusgil & Zou (1994) | 202 exporting firms in the USA | Three main determinants of successful exporting are managerial commitment, export marketing strategy and firm's international competence. Management's capability to commit and allocate resources, as well as degree of trust towards intermediary is a decisive determinant for choosing between direct or indirect export modes. |
| | **Managerial experience** | Resource – based view | Chun & Enderwick (2001) | 438 New Zealand companies with business experience in Taiwan in 1997 | Firms that have proxy experience with the host market are more likely to adopt a FDI market entry mode, while those who do not have such experience tend to commence with an export mode. |
| | | Resource-based view | Sala & Yalchin (2012) | Register data from Statistics Denmark of 9000 Danish manufacturing firms from 1995 to 2006 | Managerial input is an important determinant of the selection of firms into international markets. Slow exporters, who delay longer selling abroad, are less inclined to acquire international experience externally. |

| | | | | | |
|---|---|---|---|---|---|
| | | | Chun (2001) | Postal survey of 115 New Zealand companies doing business in Taiwan | It was not confirmed that firms having cumulative international business experience are more likely to adopt direct exporting mode. |
| | **Export marketing strategy** | Contingency theory | Hultman et al. (2011) | Postal survey of 336 Swedish exporters | Promotion adaptation strategy has a positive impact on export performance under an assumption of short duration and low intensity of export activity. The role of international experience and ability to adapt export strategy in the export market is non-significant. |
| | | | Lado et al. (2004) | 2264 Spanish exporting companies | Price and promotion adaptation depends on the export market characteristics. Geographically close markets require less adaptation and hence are more frequently penetrated by indirect export mode. |
| | | | Sousa & Lengler (2009) | A sample of 201 senior managers of industrial Brazilian firms | Standardized promotion has a positive effect on export performance. Export market is penetrated through direct export mode under assumption of standardization marketing strategy. |
| | **Organizational motives and goals** | Institution – based view | Ďaďo et al. (2015) | Two separate samples: 29 Polish exporters in the 2005–2009 period and 112 companies in the data base of 'Poland-Export' portal | Most of the companies were driven by market related motives to go international, following by economic motives and finally by legal motives. Direct export is the most commonly applied method. |

| | | | | | |
|---|---|---|---|---|---|
| | **Firm size** | Resource – based view | O'Cass & Ngo (2008) | A self administered survey was developed and mailed to 1,200 senior executives | Large and medium sized firms are more likely to engage in a direct mode entry. |
| | | | Abel-Koch (2010) | Survey carried out by the World Bank in cooperation with the European Bank for Reconstruction and Development in Turkey in 2008 | There is a significant negative correlation between firm size and the relative importance of indirect exports as opposed to direct exports. |
| | **Firm productivity** | Resource – based view | Krüger (2009) | Data of 253 Ghanaian manufacturing companies gathered in the period from 1991 to 1997 | Low productivity companies tend to export their merchandise through intermediaries, whereas high productive ones tend to export directly |
| | | | | | |
| **External** | **Business environment (cultural, economic, geographic similarity and openness)** | Institution – based view | Balabanis & Katsikeas (2003) | Survey of 500 random UK exporters | Adaption of entrepreneurial export behavior in culturally and economically dissimilar markets has a positive impact on export performance. |
| | | | Abidin, Bakar, & Sahlan (2013) | Panel data analysis using gravity model approach of Malaysian exports from 1997 to 2009 | Economic similarity, level of openness, inflation and the exchange rate play a crucial role in forming export performance between economically diverse regions. Cultural and religious similarities have weak influence on improving export activity. |

| | | | | | |
|---|---|---|---|---|---|
| | | | Lado et al. (2004) | Survey of 2264 Spanish exporting companies (mostly SME's) | Culturally similar markets increase export performance, especially in case of new exporters or SME's due to risk reduction, easier access to foreign market knowledge and distribution channels. Cultural similarity increases the likelihood of direct exporting mode. |
| | | | Baldauf et al. (2000) | Survey of 1567 Austrian ML industrial companies | Socio-cultural and political environmental factors are relatively unimportant for successful exporting. |
| | **Market barriers** | Institution – based view; Industry – based view | Leonidou (2004) | Literature review of 32 empirical studies collected during 1960-2000 and empirically tested with data from 438 firms | Identification of internal (i.e. informational, functional, marketing) and external (i.e. procedural; governmental, task, environmental) barriers. Market obstacles are easier to overcome in home markets than abroad. Policy makers should assist in reducing barriers. Globalization changes market barriers. Direct exporting is more challenging than indirect, especially for SME. |
| | **Market growth rate/Market development** | Resource-based view | Rehner et al. ( 2014) | Three-step statistical analysis of Chilean data on economic growth, GDP etc. during 1991-2010 | Economic growth of host country has a direct impact on export of local natural resources and on national economic growth. Export trade creates extreme dependence between trading partners on a national level. Governments should develop export-oriented |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | strategies supporting diverse geographic regions to minimize dependency with the main trading partner. |
| | | Industry – based view (contingency theory) | Robertson & Chetty (2000) | Empirical survey of 165 apparel industry exporters in New Zealand in 1996 | Favorable conditions of domestic market increases export performance. Entrepreneurial firms perform equally successfully in hostile and benign external markets; conservative firms have better performance in benign markets. Characteristics of the domestic/external market and firm's strategic fit and risk-aversion determines direct/indirect export mode. |
| | **Political and legal support** | Institution-based view | Alvarez (2004) | Empirical survey of 295 Chilean exporters | Public export promotion programs, process innovation and public intervention in form of exporter committees have positive and significant impact on exporting activity. |
| | | Institution-based view | Wilkinson & Brouthers (2000) | Secondary panel data of 55 000 U.S. manufacturing firms collected in 1990-1991 | Governmental export promotion programs in form of trade shows are positively related to direct exports. Trade missions and foreign offices have no impact on export activity. |
| | | Institution – based view Industry – based view | Genctuerk & Kotabe (2001) | Secondary panel data of 8761 U.S. manufacturing firms | General political export orientation and governmental export assistance programs contribute to the success of a firm if firm's export activity matches the dimension of export performance considered by a |

| | | | | | |
|---|---|---|---|---|---|
| | | | | | program. |
| | **Industry/market competitiveness** | Industry-based view | Lages & Montgomery (2005) | Random sample from the government agency of 2500 Portuguese exporters, dating to 1997 | Firm's export performance improves with the level of export market competition and simultaneous high degree of management's international experience. Export assistance programs and export performance are independent due to indirect negative impact of export pricing strategy adaptation despite direct positive influence on performance. |
| | | | Morgan et al., (2004) | Survey data from Dun & Bradstreet Database (US market) from 287 exporters | Competitiveness of the industry does not have any direct influence on export performance. Competitive intensity has an impact on export strategy choice (direct/indirect) and strategic positioning. |
| | **Market global orientation** | Institution-based view | Buck et al. (2007) | Secondary panel data of 7697 Chinese enterprises collected during 1998 - 2001 | Chinese export behavior correlates positively with an increase of multinational firms on the local market. |
| | | Institution-based view<br>Resource-based view | Hessels & Terjesen (2010) | 871 Dutch SME's | 1) High international presence of customers, suppliers and competitors increases firm's decision to export abroad.<br>2) Favorable combination of low production costs, access to capital, knowledge and technology increase probability of direct over indirect export. |

# 6. DISCUSSION AND CONCLUSION

The aim of this paper was to analyze and understand the determinants of export performance that affect the choice between direct and indirect export modes. The existing literature has been found, studied, classifying according to internal or external determinant, compared and the main findings have been discussed. The primary objective of this paper was to synthesize existing research contributions to a brief systemized and easily comprehensible overview that would allow future researchers to quickly evaluate research gaps or improvement fields, as well as guide managers' attention to identification of success and failure factors when trading overseas.

## 6.1 THEORETICAL IMPLICATIONS

As claimed in the introductory part of this thesis, there is an extensive amount of export literature that explores export performance. Nonetheless, export researchers have often come to diverging results, resulting either in positive, negative or no relationship at all for the same tested variables. Especially, internal determinants like firm size, managerial and firm international experience, export marketing strategy and external ones such as governmental assistance programs and industry/market competitiveness had very inconsistent effects on export performance and consequently the choice of export mode among different studies.

The results of this study indicate that direct exporting mode is more frequently chosen than indirect. Foremost, firm size, its experience on the local market and abroad, its financial and other resources relate positively to the likelihood of direct export. Taking into assumption resource-based theory, these results may seem trivial, as more powerful and experienced firms are able to take more risk and invest in new somewhat unsecure geographical markets without the support of a third-party. Whereas, the study of O'Cass & Ngo (2008) confirms this assumption, Able & Koch (2010) indicate the opposite hypothesis, stating that the growth of the firm size rather triggers the choice of indirect export mode through an intermediary. This fact is explained by the ability of large firms to outsource activities that do not contribute to the main competitive advantage.

Similarly, a large debate between diverse findings exists in the field of export marketing strategy's impact on the export performance. Since 1999's researchers cannot provide common suggestion on whether an adaptation or standardization export marketing strategy leads to a better export performance. Moreover, it is unclear, which strategy demands direct or indirect entrance. For instance, standardized marketing strategy implies same promotional tools across markets. Hence, a need for intermediary is obsolete. Sousa & Lengler (2009) support the positive link between standardized market strategy, improved export performance, and the direct exporting mode. This would lead to the conclusion that geographically or psychically close markets can be easily entered through direct export mode as they require less adaptation by having similar demand and supply characteristics. Yet, Lado et al. (2004) claim that geographically close markets are rather entered indirectly through an intermediary, whereas they agree that psychically and/or psychologically close markets indeed have higher degree of standardization. In order to choose between adaptation and standardization, literature in scope of the contingency theory suggests that firms should find a strategic fit of its capabilities to the characteristics of the particular market rather than blindly apply one global strategy to all exporting areas. Even more: determinants of export performance have different strength of influence depending on the exporting destination. Lado et al. (2004) confirm this hypothesis by showing that export strategies of similar goods by the same Spanish exporters to Latin America, USA and Europe are distinctive in extent of product and price adaptation techniques.

In comparison to inconsistent findings on the main internal determinants of exports, studies of external factors have shown more constant results. In general, steady market growth and development, low market barriers, friendly and somewhat global business environment, as well as governmental support contribute positively to the export performance and the probability of entering such markets directly. On the opposite, indirect exporting is believed to be more attractive in hostile markets with intense competition. Moreover, certain governments may prohibit direct exporting in scope of protectionist public policies.

Regarding external determinants of export, researchers disagree on the usefulness of diverse governmental assistance programs. Although, most studies agree that general governmental orientation towards export development improves the likelihood of successful overseas trading (both for local exporters and foreign importers), the opinion about, which particular method should be implemented differs among diverse academics. For instance, Alvarez (2004) confirms a positive relationship between governmental assistance programs in form of trade shows, missions, committees show and financial export promotion efforts. Wilkinson & Brouthers (2000) showed a positive relationship only between direct exporting and trade shows, whereas found no correlation between other types of governmental programs. Genctuerk & Kotabe (2001) also confirm that government assistance significantly contributes to export success, yet large number of governmental programs does not have any effect on export development, especially for SME's. The authors explain this trend by the lack of trust towards public policies and limited access to and information about such programs.

In summary, it may be concluded that direct export mode is gaining in significance, while exporting through intermediaries is slowly decreasing. Globalization trend and its isomorphic pulls is one of the main drivers of this development. In relation to institution – based theory and requirements of external factors, marketing mixes (including the 4 P's) of firms become more standardized among markets and continents, which develops direct exporting to easier and more applicable form of overseas trading. In this sense, globalization removes the need for intermediaries as access to market knowledge is either easier available or less relevant in case of penetrating export markets with global strategy. In addition, growth of internet drivers in general and e-commerce in particular increases the likelihood of direct exporting as well. As e-commerce helps to remove certain boundaries and to eliminate some market barriers, intermediaries no longer play their decisive role in gaining access to exclusive distribution channels or providing market research. Instead of engaging into short – or long – term relationship with exporting agencies, firms conduct market research information through consulting agencies, which assist companies in the preparation phase of offline or online export. Hence, it may be assumed that exporting intermediaries are being displaced by consulting, advisory and other market research companies. Nonetheless, the further discussion on this topic lies without the scope of this paper.

## 6.2 MANAGERIAL IMPLICATIONS

From a managerial perspective, export performance is greatly influenced by the firm's ability understand the foreign markets to be able to develop and apply the most appropriate and matching strategy based on own resources and capabilities. Literature suggests that managers should collect sufficient amount of foreign market information, knowledge and build up access to diverse actors overseas before entering the market. In praxis this can be done through visits to potential markets, participation in international trade fairs and missions or making contacts with foreign partners/consumers through government agencies. Market knowledge can also be increased through market research agencies.

Academic research also suggests that prior international experience may enhance export performance in new locations, yet company's management export commitment is more efficient determinant of success. Moreover, selection and development of appropriate internalization marketing strategy is a key to improved export performance in foreign markets. In general, literature assumes adaptation strategy in case of product and promotion methods and standardized strategy for the distribution.

Finally, managerial decision-making whether to develop in-house exporting capabilities or partnering with an external agent, or in other words a choice between direct and indirect export mode, should be considered in the same framework as any other outsourcing decision. First of all, one should assess availability of internal company resources and external partners. In case only one option is available, the choice is trivial. In case both options are feasible one should conduct monetary valuation of both options and consider associated risks. In general, if the option of internal capabilities development is more profitable and associated with lower risks a company should decide in favor of internal exporting department and hence invest into direct export. On the other hand, if the outsourcing option is calculated to be more profitable one should carefully consider the associated operational and strategic risks and decide if the risks levels are adequate in relation to the excess profits. Basically, this is the point when all considerations related to institutional, industry, and resource-based approaches discussed in this thesis come into scene.

Therefore, in order to evaluate the profitability of indirect export compared to direct, a firm should critically assess its internal capabilities and resources, as well as measure the success of exporting under the circumstances of external environment. A number of internal and external determinants can be tested to evaluate firm's profitability, risks and chances as a direct or indirect exporter. The Table 5 below shows the link between a particular determinant and the choice of the entry mode. The Table 5 aims to assist a manager in evaluating firm's strengths in order to develop a strategically successful strategy.

Table 5: Managerial guide to the choice of export mode based on the firm's internal and external factors

| Direct export | Indirect export |
|---|---|
| Specific product knowledge | Product needs high degree of adaptation |
| High degree of management commitment | High degree of trust to intermediary (sharing firm specific knowledge) |
| Global organizational motives and goals | Geographically close markets |
| Standardized strategy | Adaptation strategy |
| Large/medium sized companies | SME's |
| High productivity | Low productivity |
| Similar business environment (yet, cultural similarity has weak effect) | |
| Low market barriers | High market barriers |
| Entrepreneurial firm | Conservative firm |
| Benign markets | Hostile markets |
| Governmental export assistance programs | Intensive competitiveness of market/industry |
| Market globalness | |
| Low production costs | |
| Access to capital, knowledge and technology | |

Source: Author's creation based on the findings in Chapter 5

## 6.3 FUTURE RESEARCH RECOMMENDATIONS

Due to inconsistency of export research findings, the main direction of the future research development in the field of export determinants and their influence on the choice of export mode and export performance should encompass generalization and systemization of existing and future empirical studies.

First of all, researchers should aim at clear definition of determinants and development of common understanding of its characteristics instead of creating new and mostly similar to existing determinants.

Furthermore, Lado et al. (2004) suggest that export literature would benefit from studies, which can cover not only one single export target market as most of the current studies do but would test numerous industry exporting from one (or more) base location to a number of geographically diverse export markets. Sousa & Lengler (2009) and Lado et al. (2004) believe that this type of research would increase the reliability of the export studies, as well as improve the generalizability of the current contradictory findings on main export determinants.

Finally, despite growing globalization trend and acceptance of its importance in the literature, small number of studies explores the relationship between globalization impacts on direct or indirect export mode. Hence, based on the analysis of studies presented in this paper following research direction can provide substantial interest for the future research:

- Developing the multi-dimensional conceptualization construct for reliable assessment of export performance and its determinants (Sousa & Lengler, 2009);
- Testing export performance and its determinants of a particular country/firm in different markets with low and high psychic, geographical and cultural distance (Lado et al., 2004);
- Conducting empirical studies with less generic products or less capital intensive industries such as FMCG that are more affected by globalization and standardization triggers, as well as purchased based on emotional criteria rather than rational and thus are strongly influenced by marketing actions;
- Compare export behavior of born globals, glocals and traditional firms;
- Link globalization, marketing and export determinants together: does globalization foster global demand for standardized goods/services and their export or on the opposite it triggers demand for local production with unique distribution approach?

# BIBLIOGRAPHY

Aaby, N. E., & Slater, S. (1989). Management influences on export performance: A review of the empirical literature 1978-198. *International Marketing Review*, 7-26.

Abel-Koch, J. (2010). *Firm Size and the Choice of Export Mode.* Mannheim: Center of Doctoral Studies in Economics.

Abidin, I., Bakar, N., & Sahlan, R. (2013). The determinants of exports between Malaysia and the OIC member countries: A gravity model approach. *Procedia Economics and Finance*, 12-19.

Abu-Hussin, M. (2010). *Exploring International Trade between Malaysia and GCC Countries: Empirical Analysis on Trends, Developments and Challenges.* UK: Durham University.

Agarwal, S. & Ramaswami, S.N. (1992). Choice of Foreign Market Entry Mode: Impact of Ownership, Location and Internationalization Factors. *" Journal of International Business Studies First Quarter*, 1-27.

Agndal, H., & Chetty, S. (2007). The impact of relationships on changes in internalionalisation strategies of SMEs. *European Journal of Marketing*, 1449-1474.

Albaum, G., & Duerr, E. (2008). *International Marketing and Export Management*, . Harlow .

Albaum, G., & Tse, D. (2001). Adaptation of international marketing strategy components, competitive advantage, and firm performance: a study of Hong Kong exporters. *Journal of International Marketing*, 59-81.

Aldrich, H. (1979). *Organizations and enviroments.* Englewood Cliffs: Prentice Hall.

Alvarez, R. (2004). Sources of export success in small- and medium-sized enterprises: the impact of public programs. *International Business Review*, 383-400.

Anderson, E. & Gatignon , H. (1986). Modes of Foreign Entry: A Transaction Cost Analysis and Propositions. *Journal of International Business Studies Fall*, 1-26.

Artega- Ortiz, J., & Fernandez-Ortiz, R. (2010). Why don't we use the same export barrier measurement scale? *Journal of Small Business Management,* 395-420.

Aulakh, P., Kotabe, M., & Teegen, H. (2000). Export strategies and performance of firms from emerging economies: Evidence from Brasil, Chile and Mexico. *Academy of Management Journal*, 342-361.

Austin, J. (1990). *Managing in Developing Contries: Strategic Analysis and Operating Techniques.* New York: Free Press.

Balabanis, G. I., & Katsikea, E. (2003). Being an entrepreneurial exporter: does it pay? *International Business Review*, 233-252.

Baldauf, A., Cravens, D., & Wagner, U. (2000). Examining determinants of export performance in small open economies. *Journal of World Business*, 61-79.

Barney, J. (1986). Strategic factor markets: expectations, luck and business strategy. *Management Science*, 1231 - 41.

Barney, J. (1991). Firm resources and sustained competitive advantage. *Journal of Management*, 99-120.

Baronchelli, G., & Cassia, F. (2010). Drivers of born-global companies' international development: an empirical investigation among Italian companies. *10th Globa Conference on Business & Economics.* Rome: GCBE.

Bauerschmidt, A., Sullivav, D., & Gillespie, K. (1985). Common factors underlying barriers to export: Studies in the U.S. paper industry. *Journal of International Business Studies*, 111-123.

Bell, J. (1995). The internationalization of small computer software firms: a further challenge to “stage” theories. *European Journal of Marketing.*, 60-75.

Bender, S., & Fish, A. (2000). The transfer of knowledge and the retention of expertise: the continuing need for global assignment. *Journal of Knowledge Management*, 125-137.

Bradley, F. (2002). *International Marketing Strategy*. Essex: Pearson Education Limited.

Brassington, F., & Pettitt, S. (2000). *Principles of marketing. Financial Times Management.* . London, UK : Harlow.

Brown, H. (1996). *Franchising. Trap for Trusting,*. Boston.

Buck, T., Liu, X., Wel, Y., & Liu, X. (2007). The trade development path and export spillovers in China: A missing link? *Management International Review*, 683-706.

Buckley, P., & Ghauri, P. (1999). *The Internationalization of the Firm.* London .

Campa, J., & Goldberg, L. (1997). The evolving externa orientation of manufacturing: A profile of four countries. *FRBNY Economic Policy Review*, 53-81.

Cavusgil, S., & Zou, S. (1994). Marketing strategy - performance relationship: an investigation of the empirical link in export market ventures. *Journal of Marketing*, 1-21.

Cavusgil, S., Zou, S., & Naidu, G. (1993). Product and promotion adaptation in expot ventures: an empirical investigation. *Journal of International Business Studies*, 479-506.

Chen, C., & Messner, J. (2009). Entry Mode Taxonomy for International Construction Market . *Journal of Management in Engineering*, 3-11.

Chen, H., & Chen, T. (2002). Governance structures in strategic alliances: transaction cost versus resource-based perspective. *Journal of world business*, 1-14.

Chun, H., & E. P. (2001). An Investigation of Market Entry Strategy Selection: Exporting vs Foreign Direct Investment Modes— Home-host Country Scenario. *Asia Pacific Journal of Management*, 443-460.

Chung, H. ( 2001). Determination of export channel strategies the experience of New Zealand firms . *Journal of Asia-Pacific Business*, 25-51.

Contractor, F., Hsu, C., & Kundu, S. (2005). Explaining export performance: a comparative study of international new ventures in Indian Taiwanese software industry. *Management International Review*, 83-110.

Czinkota, M., & Ronkainen, I. (2004). *International Marketing.* Ohio: Thomson South Western.

Ďaďo, J., Wiktor, J., & Żbikowska, A. (2015). Foreign market entry motives and strategies of Polish exporters. *Marketing and Trade*, 135-150.

Dalley, W. (1997). Letter From Secretary Daley. *Business America*, 6-14.

Daniels, J., & Radebaugh, L. (2001). *International Business* . Prentice Hall: Upper Saddle River NJ .

Davis, P., Desai, A., & Francis, J. (2000). Mode of international entry: An isomorphism perspective. *Journal of International Business Studies*, 230-258.

Dean, D., Menguec, B., & Myers, C. (2000). Revisiting firm characteristics, strategy, and export performance relationship: A survey of the literature and an investigatin of New Zealand small manufacturing firms. *Industrial Marketing Management*, 461-477.

DiMaggio, P., & Powell, W. (1983). The iron cage revisited: institutional isomorphism and collective rationality in organizational fields. *American Sociological Review*, 147-160.

Doole, I., & Lowe, R. (2008). *International Marketing Strategy* .

Douglas, S., & Craig, S. (1989). Evolution of global marketing strategy: scale, scope and synergy. *Columbia Journal of World Business*, 47-58.

Dritsaki, C. (2013). Causal nexus between economic growth, exports and government debt: the case of Greece. *Procedia Economics and Finance*, 251-259.

Dunning, J., & Lundan, S. (2008). *Multinational Enterprises and the Global Economy,*. Cheltenham .

Elham, M. (2012). Comparing different internalization theories and developing an integrated model of SME internalization. *Journal of American Science*, 1432-1443.

Erramilli, M., & Rao, C. (1993). Service firms' international entry mode choice: a modified transaction cost analysis approach. *Journal of Marketing*, 19-38.

Foley, J. (1999). *The Global Entrepreneur: Taking Your Business International.* Chicago .

Friedman, T. (1999). *The Lexus and the Olive Tree: Understanding the Globalization.* New York, USA: Farrar, Straus and Giroux.

Gabrielsson, M., & Kirpalani, V. (2004). Born globals: how to reach new business space rapidly. *Intenational Business Review*, 555-571.

Gao, G., Murray, J., Kotabe, M., & Lu, J. (2010). A "strategy tripod" perspective on export behaviors: Evidence from domestic and foreign firms based in an emerging economy. *Journal of International Business Studies*, 377-396.

Genctuerk, E., & Kotabe, M. (2001). The effect of export assistance program usage on export performance: a contingency explanation. *Journal of International Marketing*, 51-72.

Gimeno, J., Hoskisson, R., Beal, B., & Wan, W. (2005). Explaining the clustering of international expansion moves: A critival test in the U.S. telecommunications industry. *Academy of Management Journal*, 297-319.

Helmke, G., & Levitsky, S. (2004). Informal institutions and comparative politics: a research agenda. *Perpective Politics*, 725-740.

Hessels, J., & Terjesen, S. (2010). Resource dependency and institutional theory perspectives on direct and indirect export choices. *Small Business Economics*, 203-220.

Heston, S., & Rouwenhorsten, G. (1994). Does industrial structure explain the benefits of international diversification? *Journal of Financia Economics*, 3-27.

Hill, C. W., & Jones, G. R. (1998). *Strategic Management: An Integrated Approach.* Houghton Mifflin Company.

Hofstede, G. (1980). *Culture's Consequences: International Differences in Work-related Values.* USA: Sage Publications.

Hollensen, S. (2001). *Global Marketing: A Market-responsive Approach.* Harlow: Financial Times Prentice Hall.

House, R., Javidan, M., Hanges, P., Mansour, J., Dorfman, P. W., & Gupta, V. (2004). *Culture, Leadership and Organizations. The GLOBE Study of 62 Societies.* Sage Publications.

Hultman, M., Katsikeas, C., & Robson, M. (2011). Export promotion strategy and performance: the role of international experience. *Journal of International Marketing*, 17-39.

Ireland, R., Hoskisson, R., & Hitt, M. (2006). *Understanding Business Strategy: Concepts and Cases.* Mason: Thompson Higher Education.

Jasarevic, A., & Licina, M. (2013). Franchising as a business concept: chance for many in Serbia. *Economics of Agriculture*.

Johnson, J., & Tellis, G. (2008). Drivers of success for market entry into China and India. *Journal of Marketing*, 1-13.

Keesing, D., & Singer, A. (1991). Development assitance gone wrong: Failures in service to promote and support manufactured exports. In P. Hogan, D. Keesing, & A. Singer, *The Role of Support Services in Expanding Manufactured Exports in Developing Countries* (pp. 1-18). Economiv Development Institute of the World Bank.

Kim, W. &. (1992). Global Strategy and Multinationals' Entry Mode Choice. *Journal of International Business Studies First Quarter*, 29-53.

Klein, P. (1999). *New Institutional Economics.* Georgia: University of Georgia.

Klein, S., & Roth, V. (1990). Determinants of Export Channel Structure: The Effects of Experience and Psychic Distance Reconsidered. *International Marketing Review*, 27-38.

Kneller, R., & Pisu, M. (2011). Barriers to exporting: what are they and who do they matter do? *The World Economy*, 893-930.

Knight, G., & Cavusgil, S. (2004). Innovation, organizational capabilities, and the born-global firm. *Journal of International Business Studies*, 124-141.

Koch, A. (2001). Factors influencing market and entry mode selection: developing the MEMS model . *Marketing Intelligence & Planning*, 351-361.

Kotabe, M., & Murray, J. (2004). Global sourcing strategy and sustainable competitive advantage. *Industrial Marketing Management*, 7-14.

Kotler, P. & Armstrong, G. (2001). *Principles of Marketing.* Upper Saddle River: Prentice Hall International.

Krüger, J. (2009). *How Do Firms Organize Trade? Evidence from Ghana* . Kiel: Advanced Studies in International Economic Policy Research Kiel Institute for the World Economy.

Lado, N., Martinez-Ros, E., & Valenzuela, A. (2004). Identifying successful marketing strategies by export regional destination. *International Marketing Review*, 573-597.

Lages, L., & Montgomery, D. (2004). Export performance as an antecedent of export commitment and marketing strategy adaptation: Evidence from small and medium-sized exporters. *European Journal of Marketing*, 1186-1214.

Lages, L., & Montgomery, D. (2005). The relationship between export assistance and performance improvement in Portuguese export ventures: an empirical test of the mediating role of pricing strategy adaptation. *European Journal of Marketing*, 755-784.

Lawrence, P., & Lorsch, J. (1969). *Organization and environment.* Homewood: Irwin.

Lederman, D., Olarreaga, M., & Payton, L. (2010). Export promotion agencies: Do they work? *Journal of Development Economics*, 257-265.

Lee, D. (1998). The effect of cultual distance on the relational exchange between exporters and importers: the case of Australian exporters. *Journal of Global Marketing*, 7-22.

Leonidou, L. (2004). An analysis of the barriers hindering small business export development. *Journal of Small Business Management*, 279-302.

Leonidou, L., Katiskeas, C., & Samiee, S. (2002). Marketing strategy determinant of export performance: a meta analysis. *Journal of Business Research*, 51-67.

Levitt, T. (1983). Globalization of Markets. *Harvard Business Review*, 92-102.

Lewis, R. (2006). *When Cultures Collide: Leading Across Cultures.* Boston: Nicholas Brealy Publications.

Li, N. (2007). Religion, Opportunism, and International Market Entry Via Non-Equity Alliances or Joint Ventures. *Journal of Business Ethics*, 771-789.

Lohrke, F., McClure Franklin, G., & Kothare, V. (1999). Top management international orientation and small business exporting performance: the moderatirng role os export market and industry factors. *Journal of Small Business Strategy*, 13-24.

Marino, K., Castaldi, R., Sengupta, S., & Silverman, M. (2001). International Applied Business Research Conference. San Francisco.

McAuley. (2012). *International Marketing* . New York: John Willey&Sons, LTD .

Mendelsohn, M. (1995). *Franchising in Europe.* London: Cassell.

Mercado, S., Welfort, R., & Prescott, K. (2004). *European Business, Fourth Edition, Harlow.* Harlow: European Business, Fourth Edition,.

Mills, J., Platts, K., & Bourne, M. (2003). Applying resource-based theory. Methods, outcomes and utility for managers. *International Journal of Operation and Production Management*, 148-166.

Morgan, N., Kaleka, A., & Katsikeas, C. (2004). Antecedents of export venture performance: a theoretical model and empirical assessment. *Journal of Marketing*, 90-108.

Morgan, N., Katsikeas, C., & Vorhies, D. (2012). Export marketing strategy implementation, export marketing capabilities, and export venture performance. *Journal of the Academic Marketing Science*, 271-289.

Naidu, G., & Prasad, V. (1994). Predictors of export strategy and performance of small- and medium-sized firms. *Journal of Business Research*, 107-115.

Narayanan, V. (2015). Export Barriers for Small and Medium - sized Enterprises: A literature review based on Leonidou's Model. *Entrepreneurial Business and Economics Review*.

Neupert, K., Baughn, C., & Lam Dao, T. (2006). SME exporting challenges in transitional and developed economies. *Journal of Small Business and Enterprise Development*, 535-545.

North, D. (1997). The contribution of the New Institutional Economics to an understanding of the transition problem. *WIDER Annual Lecture* (pp. 1-19). Helsinki: 1. UNU World Institute for Development Economics Research.

O'Cass, A., & Ngo, L. (2008). International Market Entry Mode Strategy: A Region-within-country Perspective. *The University of Newcastle*.

O'Cass, A., & Julian, C. (2003). Examining firm mand environmental influences on export marketing mix strategy and export performance of Australian exporters. *European Journal of Marketing*, 366-384.

Okazaki, S., Taylor, C., & Zou, S. (2006). Advertising standardization's positive impact on the bottom line. *Journal of Advertising*, 17-33.

Osland, G., Taylor, C., & Zou, S. (2001). Selecting international modes of entry and expansion. *Marketing Intelligence and Planning*, 153-161.

Pan, Y., Li, S., & Tse, D. K. (2000). The hierarchical model of market entry modes. . *Journal of International Business Studies*, 535–554.

Peng, M. (2000). *Business Strategies in transition economies.* Thousand Oaks: Sage Publications.

Peng, M. (2009). *Global Business.* Ohio: South-Western Cengage Learning.

Peng, M., Wang, D., & Jiang, Y. (2009). An institutional - based view of international busness strategy: A focus on emerging economies. *Journal of International Business Studies,* 920-936.

Penrose, E. (1959). *The Theory of the Growth of the Firm.* Oxford: Basil Blackwell.

Porter, M. (1980). *Competitive Strategy: Techniques for Analyzing Industries and Competitors.* New York: Free Press.

Puljeva, A., & Widen, P. (2007). *The influence of internal and external factors on entry modes.* Lulea, Sweden: Lulea tekniska universitet.

Ramaswami, S., & Yang, Y. (1990). Perceived barriers to exporting and export assistance requirements. In S. Cavusgil, & M. Czinkota, *International Perspectives on Trade Promotion and Assistance* (pp. 187-205). Westport: Greenwood Publishing Group.

Rehner, J., Baeza, S., & Barton, J. (2014). Chile's resource-based export boom and its outcomes: Regional specialization, export stability and economic growth. *Geoforum*, 35-45.

Robertson, C., & Chetty, S. (2000). A contingency-based approach to understanding export performance. *International Business Review*, 211-235.

Root, F. (1994). *Entry Strategies for International Markets.* San Francisco: Josey-Bass Inc.

Sakakibara, M., & Porter, M. (2001). Competing at home to win abroad: Evidence from Japanese industry. *The Review of Economis and Statistics,* 310-322.

Sala, D., & Yalchin, E. (2012). Export Experience of Managers and the Internationalization of Firms. *Discussion Papers on Business and Economics*.

Schlegelmilch, B., & Crook, J. (1988). Firm-level determinants of export intensity. *Managerial and Decision Economics*, 291-300.

Scott, R. (1995). *Institutions and Organizations.* Thousand Oaks: Sage Publications.

Scott, R. W. (2001). *Institutions and organizations.* Thousand Oaks: Sage Publications.

Shoham, A. (1999). Bounded rationality, planning, standardization of international strategy and export performance: a structural model examination. *Journal of International Marketing*, 24-50.

Shoham, A., Evangelista, F., & Albaum, G. (2002). Strategic firm type and export performance. *International Marketing Review*, 236-258.

Solberg, C. (2002). The perennial issue of adaptation or standardization of international marketing commnication: organizational contingencies and performance. *Journal of International Marketing*, 1-21.

Sousa, C., & Lengler, J. (2009). Psychic distance, marketing strategy and performance in export ventures of Brazilian firms. *Journal of Marketing Management*, 591-610.

Sousa, C., Martinez - Lopez, F., & Coelho, F. (2008). The determinants of export performance: A review of the research in the lilterature between 1998-2005. *International Journal of Management Reviews*, 343-374.

Sousa, M., & Alserhan, A. (2002). *An Investigation into the Antecedents of the Export Performance.* Dublin: University College Dublin.

Svensson, R. (1999). *The Choice of Entry Mode in Foreign Direct Investment, in: The Geography of Multinational Firms,* . Massachusetts: Norwell .

Sydow, J., & Moellering, G. (2004). *Produktion in Netzwerken. Make, Buy & Cooperate.* Munich: Verlag Franz Vahlen.

Teece, D., Pisano, G., & Shuen, A. (1997). Dynamic capabilities and strategic management. *Strategic Management Journal*, 509-533.

Terpstra, V. &. (2000). *International Marketing (8th ed.).* . Fort Worth: The Dryden Press.

Wach, K., & Wojciechowski, L. (2014). The size and the strategic international orientation: the use of ERPG model among Polish family and non-family firms. *Przedsiebiorczocs i Zarzqdzanie,* 143-156.

Welch, L., Benito, G., & Petersen, B. (2007). *Foreign Operation Methods: Analysis, Strategy, and Dynamics.* London: Edward Elgar.

Wernerfelt, B. (1984). A resource - based view of the firm. *Strategic Management Journal*, 171-180.

Wild, J., Wild, K., & Han, J. (2003). *International Business.* New Jersey: Prentice Hall.

Wilkinson, T., & Brouthers, L. (2000). An evaluaton of state sponsored promotion programs. *Journal of Business Research*, 229-236.

Winkler, J., Dibbern, J., & Heinzl, A. (2009). *The Influence of Product-Specific Determinants on Software Firms' International Entry Mode Choices.* University of Mannheim.

Zou, S., Fang, E., & Zhao, S. (2003). The effect of export marketing capabilities on export performance: an investigation of Chinese exporters. *Journal of International Marketing*, 32-55.