INTERNATIONAL MARKET ENTRY STRATEGIES

FOR VALUE-ADDED WHEAT PRODUCTS

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ABSTRACT


International marketing and trade literature has thoroughly documented the significance of foreign trade and investment in the global food system. Yet, empirical studies specifically pertaining to consumer-ready agricultural products have been limited. Furthermore, only a modest segment of research has been directed towards the value-added wheat industry. This study investigates the factors that affect international market entry decisions by firms trading consumer-ready wheat products. The study differentiates itself from other research due to its focus on (1) actual company behavior in the value-added wheat industry, (2) the aggregation of influential entry mode factors cited in previous studies, and (3) the influence that these factors have on behavior within the value-added wheat industry. A framework of market entry modes is presented, followed by the review of significant factors found in previous studies. A synopsis of the firms’ survey responses is provided as well as conclusions based on aggregate data. The paper concludes with recommendations for future study.
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CHAPTER 1
INTRODUCTION

Changes in the world economy are heightening competitive pressures on agribusiness firms, compelling them to seek business beyond domestic trade. Induced by the globalization of the food system, many growth-oriented firms in the value-added wheat sector have expanded into foreign markets.

The implications of these changes on the U.S. value-added wheat industry are substantial (Figures 1 and 2). Exports of grain-based products are assuming a more prominent role as firms in the U.S. food processing industry pursue increased market share through multi-national commerce.

Source: National Trade Data Bank, 1997.
Figure 1. U.S. Exports of Value-Added Wheat Products, Volume 1989-1995.
Between 1993 and 1995, for example, bakery and grain mill products accounted for 16 percent of the total value of U.S. processed food exports (Economic Research Service 1997). Since 1989, U.S. exports of value-added wheat products, including mixes and doughs, cookies and crackers, pasta, fresh and frozen bakery products, and cereal breakfast foods, have increased steadily.

For instance, the volume of U.S. exports of cereal breakfast foods has increased over 80 percent since 1989 (Figure 1), while U.S. exports of cookies and crackers, and mixes and doughs have increased 64 percent and 65 percent, respectively. Fresh and frozen bakery products had the smallest increase in U.S. export sales, still reaching a 58 percent growth in volume (National Trade Data Bank 1997).

Since 1989, the export value of U.S. bakery products rose 78.8 percent, falling second only to pasta, which increased by 83.9 percent (Figure 2). The export value of
mixes and doughs, and cereal breakfast foods have concurrently increased approximately 67 percent while cookies and crackers rose 70 percent during the same period. The Economic Research Service (1997) expects these trends to continue.

Exports of value-added wheat products are only a small portion of the actual revenue derived from the industry’s global sales. Processed foods are increasingly sold through foreign affiliates (Handy and Henderson 1994). Since 1986, the value of U.S. food manufacturers’ sales through foreign subsidiaries has been over four times the value of U.S. processed food exports (Henderson, Handy, and Neff 1996). The sales from foreign subsidiaries are expanding rapidly: processed food product sales from U.S.-owned foreign affiliates increased 47 percent between 1990 and 1995 (Economic Research Service 1997).

There are recurring examples in the value-added wheat industry which illustrate the increase in international commerce of consumer-ready, grain-based products. In 1993, 77 percent of CPC International’s plants were located in markets outside the U.S., while Philip Morris/Kraft Foods had 119 of its 251 processing plants located in foreign countries (Economic Research Service 1997). In 1995, foreign sales of breakfast cereal resulting from a joint venture between General Mills and Nestle rendered over $600 million in sales for General Mills. This revenue was 20 percent higher than in 1994 and is expected to top $1 billion in sales by the year 2000 (Walsh 1996). Another joint venture between PepsiCo and General Mills garnered over $1 billion in revenue from foreign sales of snack foods in 1995, and these sales are expected to increase by an annual rate of 15 percent. A joint venture between General Mills and Betty Crocker, designed to sell dessert products in Latin America, has also been profitable. According to Ray Viault, General Mills Vice
Chairman, “We expect that to be a $100 million business by the year 2000” (Walsh 1996 pp. D4). The company plans to derive more than 25 percent of its total profit from foreign sales within the next 5 years, approximately twice the present amount.

Given the expansion of international sales in the value-added wheat industry and increased competition from both domestic and foreign firms, the question companies face is no longer “Should I compete internationally?” but “How should I compete internationally?” (Wilson 1997).

However, to compete internationally firms must first penetrate target markets. The increase in international competition requires careful analysis of foreign market entry strategies. This study addresses the international market entry mode choices made by firms in the U.S. value-added wheat industry, focusing specifically on the factors that influence their choice of entry mode.

International Market Entry

While foreign markets offer considerable opportunity for growth-oriented firms, they pose different challenges than domestic markets. International expansion is characterized by increased transaction costs and levels of uncertainty, augmenting the impact of risk on business decision making.

In the global environment, traditional marketing strategies do not necessarily apply. Confronted with different government regulations, political uncertainty, restrictive tariffs, non-tariff trade barriers, and cultural differences, U.S. companies selling value-added wheat products internationally face a range of factors that do not exist domestically. Root (1994 pp. 28) points out “The variety of forces, difficulties in measuring their strength, and the need to anticipate their direction over a future planning period combine to make the
entry mode decision a complex process, with numerous trade-offs among alternative entry modes.”

The factors that influence international market entry behavior of firms may be firm-specific, such as the company’s willingness to commit resources to the venture. They may be specific to the home country and include such factors as the cost of domestic resources, or they may be specific to the target country, regarding such factors as the foreign market’s competitive structure (Root 1994).

Compounding the complexity of the problem is the number of entry modes available to firms. International market entry strategies range anywhere from ad hoc export entry for the purpose of meeting an unsolicited foreign order to 100 percent ownership of a manufacturing plant located in the foreign target market.

“While international trade and sales through affiliated foreign operations dominate global market activities of processed food firms...firms use a variety of global market strategies including international product licensing, joint production and distribution ventures with foreign partners, international franchising, and contract production in addition to trade in goods and foreign direct investment” (Henderson, Handy, and Neff 1996 pp. xii).

Executives charged with evaluating a firm’s strategic options are faced with a complex matrix of market entry options, each with its own costs and benefits, and each affected by diverse external and firm-specific constraints.

International Market Entry and the Value-Added Wheat Industry

Recent research indicates that foreign market entry is one of the most critical issues in overseas marketing (Henderson, Handy, and Neff 1996; Hollon 1989; Oster 1994; Connor and Schiek 1997, Reid and Rosson 1987). However, the majority of global market research has produced relatively little study of international sales of processed
foods (Henderson, Handy, and Neff 1996 pp. 25; Reed and Ning 1996; Krause, Dooley, and Wilson 1995). There is even less research on market entry strategies for value-added wheat products.

Oster (1994) claims that entry into an industry is the most important force of Porter’s traditional market analysis. Cundiff (1988 pp. 68) claims that “One of the most important decisions in international marketing is how to enter foreign markets. The entry decision affects the firm’s ability to control its foreign market strategy, as well as its profit potential.” In a survey of firms exporting agricultural products from Texas, Hollon (1989) found that management views the initial entry into export markets as more difficult than either the administration of pending export activities or the process of expansion to new export product lines or markets.

Mitrabarun and Cavusgil (1996) maintain that examination of market entry management is one of the most important areas researchers should be emphasizing given the considerable increase of international business activity. Madhok (1997) claims that the mode of foreign market entry is an important issue due to the implications it has on companies’ competitive advantage.

Connor and Schiek (1997) argue that initial success upon foreign market entry is critical for several reasons. First, companies that are unsuccessful in their first entrance attempt may be more likely to desert the market. Upon trying to re-enter, the firm may find that its reputation has been damaged because of the earlier departure from the market. Existing firms in the foreign market may be less likely to cooperate and will more readily perceive the entrant to be an undependable supplier. Equally as important, firms waste
resources from “start and stop” export maneuvers, a strategy which prevents them from establishing the expertise necessary to successfully compete in foreign markets.

Reid and Rosson (1987 pp. 5) support the idea that market entry is paramount in the international marketing process. “Although [there are] five key steps in the export decision process, we view the entry mode decision as being pivotal.” The authors posit that substantial progress could be made by understanding not only why firms choose a particular entry mode, but also how they make that decision.

Choices of market entry strategies may depend on the type of industry that is involved (Ryans and Rau 1990). Therefore, market entry strategies specific to the processed food industry may differ from those strategies used for other goods and services. Porter (1990 pp. 6) suggests that “to find answers we must focus not on the economy as a whole but on specific industries and industry segments.” Ryans and Rau (1990) concur, asserting that strategic options will differ based on the type of industry that is involved.

Importance of Globalization to U.S. Food Manufacturers

The importance of international markets as a source of profit for food processing companies is primarily derived from the reorganization of the global food system. Liberalized import policies, deregulation of investment policies, new-found prosperity in developing economies, a larger and more affluent world population (Henderson, Handy, and Neff 1996; Zertuche and Lehrer 1997) and the “irrevocable homogenization” of the world’s consumer standards (Levitt 1983) have revamped the global food chain, both increasing opportunities for food processing companies and creating a source of increased competition among them. U.S. food manufacturing firms may participate internationally to pursue expansion and profit, while others internationalize as a defensive strategy due to
the global market entry of a domestic competitor or to off-set a foreign firm’s penetration of the domestic market (Overend, Connor, and Salin 1997; Root 1994). Companies that were protected by nationalistic policies are now threatened by relaxed trade barriers and increased competition from abroad. The need to reinforce their competitive positions causes them to look towards international markets for sales of their product (Ahmed and d’Astous 1995).

Off-Shore Growth Rates

Growth is slower in the domestic food market than in international markets, making global sales a key variable for U.S. firms’ long-term profitability. “Most U.S. stomachs are full. The average U.S. consumer takes in 3,644 calories per day, 27 percent more than the world’s average and 6.7 percent more than the developed countries’ average” (Lindsey, Martin, and Nuckton 1992 pp. 55). U.S. demand for food products is increasing at only 1 percent per year in real terms (Reed and Ning 1996). International food markets are expanding at much faster rates. Worldwide, the average growth rate of food product demand is approximately 11 percent (Wilson 1996). East Asian food product demand is growing at a yearly rate of 6-8 percent (Reed and Ning 1996), while China alone is projected to reach an annual growth rate of 18 percent (Wilson 1996). In addition, the income elasticity of demand is higher for food products in most of these countries (Reed and Ning 1996).

Population Growth and Economic Development

Population growth and economic development in eastern European, Latin American, and Asian economies provide the U.S. with promising trade prospects. Only
four percent of the world population resides in the United States (U.S. Census Bureau 1996). While the world population is increasing annually by 1.5 to 1.8 percent, developing countries grow at four to five times that rate (Walsh 1996). Currently, 600 million consumers in developing economies earn more than $5,000 per year and have rising disposable incomes. Within the next decade, these emerging economies are expected to double their consumer buying power by adding 500 million additional consumers to the global market (Dreyfus Service Corporation 1997). Furthermore, in most developing countries, food consumption is growing faster than local production.

China, the world’s most rapidly growing economy and most populous nation, is now a net importer of processed food products. Current forecasts project the country’s gross domestic product to grow nearly 10 percent per year through 2001 (Barkema and D. Drabenstott 1997). Since the country has begun to open up its economy, U.S. firms have been investing in China at rapid rates, despite the political and economic uncertainty (Root 1994).

Asia’s gross domestic product (GDP) is expected to increase annually by approximately eight percent. Latin America’s GDP is expected to increase five percent per annum including Mexico’s average yearly GDP growth rate of four percent (Barkema and D. Drabenstott 1997). The fastest growing destinations for U.S processed food exports are the less industrialized countries, especially countries in East Asia such as Indonesia and Vietnam (Economic Research Service 1997).

Trends, such as aging populations, smaller household size, increased awareness about health and nutrition, and women’s entrance into the workforce, have a positive effect on foreign populations’ food consumption (Lindsey, Martin, and Nuckton 1992). With
incomes and population growing, growth of U.S. food exports and food sales of foreign affiliates are likely to continue. Impacted by the westernization of diets and changes in tastes and preferences toward more convenience and quality, the development of global markets for high-value, processed food products will continue to have a substantial impact on the importance of consumer-ready agricultural exports (Economic Research Service 1997) as well as direct investment opportunities: “These changes are inevitably accompanied by . . . much willingness to attract western capital investment” (Buckwell 1992 pp. 101).

Global Product Life Cycle

The global product life cycle (Figure 3), or the international life of a product over time, inherently induces foreign trade and investment, and has important implications for any firm seeking to capitalize on international opportunities.

Figure 3 illustrates the life span of a product starting with the introduction and ending with the decline. The introduction phase in new markets outside the United States is generally initiated after introducing the product domestically. This process enables the positioning of a product in several countries over time, allowing firms to take advantage of the different life spans of a product cycle while confronting saturated or declining markets at home (Root 1994).
World Trade Agreements

Governments around the world are making efforts to liberalize international trade, prompting the international sale of value-added food products. The North American Free Trade Agreement (NAFTA) and the Uruguay Round of the General Agreement on Tariffs and Trade (GATT) are commonly cited as having reduced trade barriers. Mexico and Canada have augmented their imports of U.S. processed food products since the implementation of NAFTA. For instance, Mexico has doubled its imports of bakery products, including breads, cakes, bakery mixes and cookies, with U.S. suppliers maintaining an 85 percent market share. Due, in part, to the decline of tariffs under NAFTA, imports of bakery products are expected to reach $180 million by the year 2000 (Zertuche and Lehrer 1997).

There are many other examples of agreements that are reducing trade barriers to developing countries. Chile; Costa Rica; and the countries of Brazil, Argentina, Uruguay, and Paraguay, which are the members of the MERCOSUR trade agreement, are currently
negotiating additional trade agreements with the United States (Economic Research Service 1997). The World Trade Organization, successor of the GATT, has implemented programs designed to liberalize investment regulations around the world while individual countries are relaxing their own investment rules. For example, Poland, Hungary, and the Czech Republic are in the process of transforming their planned economies into market-based systems that would fully participate in the global economy (Root 1994).

While free trade agreements have increased trade in food products worldwide, the lack of trade agreements in some areas has had a direct impact on foreign investment. For example, Argentina, Brazil, Thailand, and the Philippines have been the destination of several U.S.-owned foreign affiliates in the past several years due to their high tariffs, extensive agricultural base, and lack of proximity to the United States. These factors create strong incentives for firms to locate their subsidiaries abroad and have a positive effect on sales by U.S. foreign affiliates (Economic Research Service 1997).

Impact of Globalization on Agribusiness Management

The new global economy provides strong incentive for managers to increase their knowledge of the emerging business environment (Root 1994) and to improve their executive decision making concerning international strategies. Boehlje, Akridge, and Downey (1995, pp. 494) claim that globalization is one the of the top ten changes restructuring agribusiness industries, profoundly affecting the overall operating environment of agribusiness firms and their profitability. “It will be essential to be a world-class manufacturer/distributor . . . because competition will be global in nature.”
Objectives

The objective of this study was to identify the factors that most influence food processing firms’ choices of international market entry modes in the value-added wheat industry. Joint ventures, for example, have considerably more profit potential than contracting with a foreign sales agent. Does a firm decide to use that option because of the prospective revenue or because the target market is otherwise impenetrable due to legal barriers? Likewise, exporting takes less capital commitment and international experience than a joint venture, but does a firm export because it has limited experience and money or because it wants to maintain enough flexibility to exit the market under high-risk circumstances?

The specific objectives of the study were to 1) examine the motives behind firm-level decisions (using a survey of international marketing managers in the industry), 2) rank the responses of the respondents using statistical analysis, and 3) determine important strategic factors affecting entry mode decisions made by international sales managers in the value-added wheat industry.

Methodology

The survey was administered by fax and by personal interviews. The targeted respondents were the international sales or marketing managers of U.S. food processing firms selling consumer-ready wheat products to one or more markets outside the United States.

The survey was administered to 81 companies, of which 24 responded. The final sample of companies ranged in size from 10 employees to over 20,000 employees and, in
terms of their international involvement, from foreign sales of 1 product in 1 international market to worldwide distribution of several value-added wheat products.

The responses to the surveys were both quantitative and qualitative, and were analyzed accordingly. The quantitative responses were analyzed by means of a logistic regression model as well as simple means and frequencies, while the qualitative responses were organized by entry strategy, which provide a summary of the motives behind firms’ international entry mode choices.

Organization

This paper consists of four additional chapters. Chapter Two describes the different international market entry modes available to firms as well as the costs and benefits of each strategy. In addition, Chapter Two includes a literature review of studies citing the incentives behind firms’ use of various modes of foreign market entry. The research methodology and survey instrument are presented in Chapter Three, followed by the results of the survey in Chapter Four. Chapter Five consists of the summary and conclusions for the study.
Numerous international market entry strategies exist for firms looking to expand overseas, each of which involve various levels of uncertainty, capital investment, and managerial decision making. In order for managers to make effective entry decisions, they must first understand the available options as well as the risks and advantages involved with each alternative. This chapter provides a description of the international market entry strategies available to firms, delineates the cost/benefit attributes of each entry mode, and develops them in a general framework designed to illustrate the continuum of entry strategies from low commitment and equity exposure on one end to high investment and control on the other. Based on a literature review of general business and agribusiness studies, factors which have been found to induce various forms of international market entry are then introduced.

Risk versus Control

The choice of entry mode is a “dynamic” decision, as it takes place over time and changes as the firm gains knowledge and experience (Wilson 1997). Over time, the firm must decide if it should trade off control for reduced risk, or increase its investment to secure more authority over the international marketing of the product and to gain a sustainable presence in the target market.

The amount of leverage a firm gains over its international marketing operation often depends on the level of investment it invests to implement the venture. The capital investment may be fixed and tangible, such as equipment purchased for a foreign
processing plant, or it may be firm-specific and intangible, such as entrepreneurial ingenuity. As the company incurs more sunk costs, the firm’s exposure increases as does its long-run commitment to the market. At the same time, the firm’s ability to exit the market decreases. “Every firm considering entry into an industry must simultaneously consider the costs of exiting that industry. If entry requires a firm to invest a large amount of capital, which is difficult to recover should exit occur, exit barriers are high” (Oster 1994 pp. 76-77).

International Market Entry Strategies

From a purely economic perspective, the entry mode decision is based on production costs, and is made between manufacturing the product in the home country and producing it in the target market (Root 1994), a decision which is “fundamentally based on the logistics and economics of weight losing processing relative to shipping cost differentials” (Wilson 1996).

However from a managerial perspective, there are many other factors to consider, and the spectrum of entry mode alternatives broadens considerably (Root 1994). For example, a firm’s market entry strategy may include the foreign production of brands through licensing, joint ventures with foreign food processors, or a strategic alliance designed to exploit various processing and packaging technologies or product formulations (Henderson, Handy, and Neff 1996 pp. 13). Each of the various options between export entry and Foreign Direct Investment (FDI) differ in equity exposure and control. Their relative position to one another is illustrated in Figure 4.
Firms can lessen their commitment and risk exposure by choosing an entry mode low on the continuum. However, these strategies are inversely related with the firm’s level of control over the foreign marketing process. Export, licensing, contract manufacturing, or joint ventures with a minority share are all examples of entry modes that possess relatively low financial commitment and corresponding levels of control.

In contrast, entry modes on the opposite end of the spectrum, such as majority share joint ventures, acquisition of a local firm, or the development of a foreign subsidiary, offer a considerable amount of authority over the international development and marketing of the firm’s products as well as increased profit potential. The price paid for these benefits is correspondingly higher and requires a much greater level of commitment on behalf of the U.S. firm.
Neither of the extremes along the continuum is exclusively beneficial. Companies are rarely limited to one strategy; the various entry mode alternatives can be combined in order to best achieve the firm’s goals for international expansion (Keegan 1989). There is, nonetheless, an optimum strategy. It is vital that firms decipher which strategy that is, contingent on the external and firm-specific constraints present in the particular case.

One error that many firms commit is failing to evaluate all feasible entry modes. In a study conducted on Oklahoma’s value-added agricultural export industry (Chalet and Henneberry 1990), failure to consider licensing or joint-venture agreements was listed as one of the ten most common mistakes of potential exporters. “Every firm faces a broad range of strategy alternatives. In far too many cases, companies fail to appreciate the range of alternatives open to them and therefore employ, often to their grave disadvantage, only one strategy” (Cundiff 1988 pp. 291). Root (1994) refers to this managerial behavior as the naïve rule and claims that a likely result is choosing the wrong entry mode. “Managers acting on the presumption that their preferred mode is also the right one do not bother to assess the long-run profitability [of the venture]” (Root 1994 pp. 182).

The transaction costs related with international marketing are particularly critical and include such expenses as locating a buyer, negotiating and enforcing contractual agreements, communicating and transporting across foreign borders, and regulating the transfer of international payments (Rosillo and Abbott 1997). Levy (1997 pp. 94) asserts that decision makers tend to miscalculate the problems of operating in an international supply environment, claiming that “managers systematically underestimate these costs . . . and do not fully appreciate the complex, dynamic way in which various disruptions affect a geographically dispersed supply chain.” As a result, some companies have found
themselves at a competitive disadvantage due to the employment of an entry mode that proved itself unwarranted or inefficient.

The selection of the optimum entry mode is, consequently, of foremost importance. Without an effective entry strategy, firms will not maximize their profit potential with regards to the target market or to their international capacity.

Entry Mode Definitions and Cost/Benefit Features

Entry mode selection should be the result of a comparison between the cost and benefits of a firm’s entry mode options to its resource constraints (Root 1994, Rosillo and Abbott 1997). This section defines the different entry modes available to a company and outlines the cost/benefit features of each option. The entry mode options are covered in the following order: export entry, non-equity contractual agreements, joint ventures, and FDI.

Export

The United States is the third largest value-added food product exporter in the world (Handy and Henderson 1992) and is demonstrating a shift in export gains from bulk commodities to differentiated products with specific end-uses (Connor and Schiek 1997). Between 1985 and 1994, the value of U.S. export sales of processed food products reached $25.6 billion, an increase of 149 percent (Malanoski, Handy, and Henderson 1997). By 1996, high-value processed foods accounted for more than $33 billion, representing over half the total U.S. food and agricultural exports (Walsh 1996). U.S. processed food exports increased dramatically and have exceeded imports since 1992 (Economic Research Service 1997).
Export entry is defined by Root (1994) as the transfer of merchandise from the home country to a foreign market, without the transfer of technology. It is the most traditional and least risky market entry strategy available to firms. Export entry can be a means of developing market share in the target market without investing substantial human and financial resources. Given the start-up ease and low equity investment required, exporting is an appealing strategy for firms with limited capital or international marketing expertise. According to Root, exporting is often used by “neophyte” international firms whose primary objective is to minimize uncertainty rather than maximize control.

Firms that utilize exporting as a primary market entry strategy can capitalize on substantial economies of scale. According to Keegan (1989), the centralization of production operations may not only decrease costs, but may also yield comparative quality advantages.

Export entry is also very flexible and affords companies the freedom to rescind the venture if necessary. Market risk and entry mode flexibility are important issues when the degree of uncertainty about a market’s potential is relatively high (Simyar and Argheyd 1987).

Export Entry Modes

There are four types of export entry: indirect, direct, cross-marketing, and intra-firm sales. The differentiating factor between the various export entry modes is the level of control that the parent firm has over the marketing and distribution of the product.

Indirect Export

Indirect exporting occurs when the parent firm sells a product to domestic intermediaries who are responsible for the actual foreign sale. Indirect export entry
requires the least amount of experience or international marketing ability since the account is handled by the intermediary, and therefore, the burden of foreign market penetration is the responsibility of the domestic agent. Furthermore, selling to a third party alleviates the expense of establishing one’s own foreign trade operation.

There are various types of U.S.-based intermediaries, including Export Management Companies (EMCs) and Export Trading Companies (ETCs). These firms are independent, hired to locate buyers in the foreign market, secure export sales, complete documentation for the product shipments, and expedite payment for the merchandise (Cavusgil and Ghauri 1990).

The downfall of indirect export sales is the separation between the exporting firm and the foreign buyer. Considering that the sales transaction occurs between the foreign buyer and the intermediary, minimal information is exchanged with the original supplier, making it difficult to establish a buyer-seller relationship. In addition, the exporting firm has little control over product pricing and distribution (Business International Corporation 1992).

**Direct Export**

Direct export entry is the shipment of merchandise from domestic production facilities to a distributor or agent in the foreign target market. According to Rosson (1987 pp. 297), the titles “distributor” and “agent” are often used synonymously in export literature, though they do not mean the same thing. “A distributor is a merchant middleman and as such, he is a customer of the exporter. An agent, on the other hand, is a representative who acts on behalf of the exporter; he is not a customer.” An agent arranges the sale of the parent company’s products for a specified period of time and charges a
commission on the sales. However, the agent does not take title to the goods. The agent, therefore, is mainly present to facilitate the logistics of the sale and to gather information about prospective and current customers. The disadvantages are that the parent company is charged with the collection of payment and is responsible for any ensuing problems that may occur with a client. A distributor, on the other hand, buys the merchandise from the parent company and then resells the product in the target market. The advantages of a distributor are that the parent firm is not responsible for the maintenance or support of the distributor, the set-up costs to initiate the contact with the distributor are relatively low, and the parent company is not responsible for any of the logistical details or problems. Correspondingly, the disadvantages of using a distributor are that the parent firm’s involvement with the customers is indirect. In addition, it usually has little control over the selling price of the product.

There are clear advantages to direct export whether it be through an agent or a distributor. Intermediaries in the foreign market act as an inexpensive means of market entry. They possess a developed network of contacts in addition to the ability to promote and sell the exporter’s goods without extensive lag time (Cavusgil and Ghauri 1990). They have an immediate proximity and well-versed knowledge of the retail sector in the target market and are able to take care of follow-up problems if they occur (Business International Corporation 1992). Foreign market intermediaries can handle the details of exporting, such as packing, freight forwarding, storage, and customs. They may also offer services such as market research, legal assistance, insurance, transportation, communications, and even warehousing. Furthermore, overseas intermediaries can supply
information, such as consumer preferences and trends, on the target market. Such data may aid the exporting firm in better meeting the needs of the market in question.

Direct export, however, requires knowledge and management of all export documentation and international payment procedures (Cundiff 1988). When firms export directly to the foreign market, they are subject to all of the target country’s import requirements and may be hindered by tariff and/or non-tariff trade barriers (Keegan 1989). In essence, the parent company is responsible for establishing an export department within its firm.

It is possible to export directly to the foreign market without the use of an intermediary, a practice which permits the company more control, increases the firm’s direct exposure to the market, and can increase the firm’s profits. However, managing the account can become onerous from a logistical perspective. It means more administrative and financial commitment. The parent firm must do its own market research, international advertising, customer relations, and after sale service (Simyar and Argheyd 1987).

Cross-Marketing

Cross-marketing exists when a domestic firm and a foreign firm arrange to import and market one another’s product or product lines. The two firms may even supply various services, such as warehousing and delivery, for each other (Ryans and Rau 1990).

Intra-Firm Trade

Exporting to a subsidiary in the target country, or between subsidiaries or branches of a multinational firm (Rosillo and Abbott 1997), is known as Intra-Firm Trade (IFT). By virtue of the establishment of a subsidiary, IFT is actually a form of FDI. However, since
this form of market entry is export-based, it is still subject to all import restrictions. Any
tariff or non-tariff trade barriers are applicable.

According to a study by Wang and Connor (1996), IFT is increasingly utilized by
multinational food companies. Overend, Connor, and Salin (1997) cite that, in 1982, a
study of 71 U.S. multinational food manufacturing companies found approximately 32
percent of their $4.6 billion in exports to be intra-firm. Wang and Connor claim that
economies of scale stimulate this type of trade. Hence, IFT typically occurs within large
firms.

In general, although compensated by lower risk, exporting is not always the most
economically feasible market entry strategy. It is cumbersome and expensive to haul some
products long distances, especially when the target market produces the same product or
the resources necessary to manufacture the product (Economic Research Service 1997).

Value-added wheat products compete with exports of the bulk commodity. Growth in population and income induce value-added food consumption. However, with
rising income and economic stability, developing countries may prefer to invest in food
processing and distribution facilities rather than import the processed product (Barkema
and M. Drabenstott 1997). In addition, the U.S. transportation system is more efficient at
moving bulk commodities rather than the processed product (Wilson 1996). A
combination of these factors will induce a U.S. food processing firm to invest directly in
the foreign market through a contractual agreement, a joint venture, or some form of equity
ownership in the target market.
Non-Asset Based Contractual Agreements

Contractual agreements occur when two or more partners decide to collaborate in order to take advantage of each other’s strengths (Lewis 1990). The primary forms of contractual agreements are licensing, franchising, contract manufacturing, turnkey operations, management contracts, and strategic alliances.

Contractual agreements have become increasingly important to agribusiness firms.

“One of the most striking features of industrialization and structural change in the food system over the past three decades has been the shift in several agricultural commodity markets away from spot transactions to forms of production/marketing contracts” (Sheldon 1995, p. 1).

Firms turn to contractual agreements for many reasons. Sometimes it is due to their own lack of international experience or knowledge of the target market or because they have limited financial and managerial resources. However, many firms utilize contractual agreements as a way to achieve their sales objectives in the most efficient manner possible.

Contractual agreements are a low-cost approach to selling products in a foreign market and, like export entry modes, they are more easily rescinded than equity-based strategies. However, they supply the parent firm with more leverage than simply exporting the product from a centralized location, and, like other non-export entry modes, they alleviate the necessity to deal with import controls and trade barriers.

Licensing

Foreign licensing is a process by which a parent firm authorizes the right of production, promotion, or sales of a product to a firm in the target market (Root 1994). The firm receiving the license pays an up-front fee or an ad valorem royalty in return for the licensed rights to the product.
Examples of products typically licensed internationally include ownership of brand names with high consumer acceptance, innovative techniques, and unique product formulations (Henderson and Sheldon 1992, Cavusgil and Ghauri 1990). Companies with high firm-specific investment (such as the characteristics listed above) have a strong incentive to expand internationally in order to lower per-unit costs and may do so by means of licensing.

Licensing is a relatively easy mode of market entry since it does not require extensive international marketing expertise. The financial commitment required to implement an international licensing agreement is low in comparison with joint ventures or FDI. Aside from the expenses that the licensor may incur by supplying training and in some cases a quality control program (Henderson and Sheldon 1992), the majority of the firm’s expenses are incurred in the negotiation and administration of the license agreement. The parent firm does not have to finance the start-up of an operation overseas. Still, the production and marketing of its product are still executed. In essence, licensing is a means of increasing international sales and extracting rent in foreign markets, without expending high sums of managerial and financial capital (Cavusgil and Ghauri 1990, Wilson 1997). Foreign licensing is also a preferred strategy when the potential for sales in the target market is too modest to assure sufficient return on foreign direct investment, yet large enough to justify the financing necessary to secure a royalty fee (Wilson 1997).

There are drawbacks to licensing. First, the revenue derived from the venture is limited to royalties. Often, the licensor cannot use another mode of entry in the target market until the contract is no longer valid (Cavusgil and Ghauri 1990). The negotiations can be cumbersome. It may be difficult to find an appropriate company to serve as the
licensee. Furthermore, the licensee may adopt the new technology, master it, and become a competitor of the domestic firm (Business International Corporation 1992, Saggi 1996).

**Franchising**

Franchising is similar to licensing in that it permits a foreign entity to produce, market, and sell the parent firm’s product. The difference is that franchising consists of contracting out the rights to a system, rather than a single product or technology, and is intended to remain permanent, whereas licenses are restricted to a specific time limit (Cavusgil and Ghauri 1990). The franchisee generally gains the parent firm’s trade name and is required to follow its policies and operation procedures. This mode of market entry is especially inviting “when a company has a product that cannot be exported to a foreign target country, does not wish to invest in that country and has a production process that is easily transferable to an independent party” (Cavusgil and Ghauri 1990 pp. 27).

**Contract Manufacturing**

In addition to licensing the rights to a product, a contract manufacturing agreement guarantees that a parent firm will supply an agreed-upon amount of production capacity or technology to local manufacturers while maintaining control over the administrative and production process (Ryans and Rau 1990). This form of entry mode alleviates complications associated with direct ownership in the foreign country, yet it permits an expeditious entry of the parent firm’s product into the target market (Root 1994). The costs and benefits of contract manufacturing are similar to licensing. Contract manufacturing is a feasible entry mode if direct export is too costly or the target market is not large enough to justify direct investment. It may be difficult, however, to locate a suitable processor in the target country. The foreign manufacturer may need to increase quality and production
standards, which would require considerable technical and financial assistance. In addition, the foreign firm can become a future adversary (Cavusgil and Ghauri 1990, Root 1994).

**Turnkey Operation**

In this particular mode of entry, the parent firm furnishes both the basic construction contract for a new facility and the initial administration of the foreign operation. After construction is finished, the parent firm supplies enough supervision and training to prepare the foreign client for future management of the plant. When the preparative stages are finished, the foreign client takes over full ownership and control of the new operation (Root 1994).

Similar to other licensing agreements, the contractor receives royalties for the employment of its trade name and for the technology transferred to the foreign firm. The greatest advantage of this agreement is that the parent firm often becomes the foreign processing plant’s preferred supplier (Ryans and Rau 1990).

**Management Contract**

A fast growing area of contractual agreements is international management contracts. An international management contract occurs when a U.S. firm provides only organizational and administrative expertise to a firm in the target country. This form of contractual arrangement allows the parent firm to manage the daily operations of the foreign facility until the new administration is ready to take over. Management contracts are typically implemented in conjunction with a joint venture, a turnkey operation, or when countries nationalize an industry (Cavusgil and Ghauri 1990). In the case of a nationalized
company, the local firm actually rehires its previous owners to transfer the administrative and technical ability to the new management (Ryans and Rau 1990).

**Strategic Alliances**

With rising costs for product research, development, and introduction, at times it is unfeasible for companies to launch an international marketing venture on their own. Strategic alliances are partnerships that allow multinational enterprises to share the risk involved with an international venture. Together, participating firms can achieve economies of scale and can help reduce each other’s total average costs (Lindsey, Martin, and Nuckton 1992).

Functional-specific alliances are a form of strategic alliance and are developed to perform one specific task. For example, a joint bidding consortia combines partnering firms’ resources to improve their chances of winning government contracts in foreign countries (Business International Corporation 1992).

In summary, non equity-based contractual entry modes involve more commitment and more risk than exporting because technology and firm-specific assets are transferred between the parent firm and a company in the target market. These contractual agreements are not, however, a means of transferring capital investment. Equity-based entry modes transfer capital and include two entry modes used often by U.S. food processing firms: joint ventures and FDI.

**Joint Ventures**

According to Root (1994), joint ventures are partnerships between a parent company and one or more parties located in the foreign target market. A joint venture is
similar to non asset-based contractual relationships except that it actually creates a third enterprise (Business International Corporation 1992).

There are several types of joint ventures which are differentiated by the percent of ownership. Ownership may be majority (51-100%), minority (49% and under), or 50-50 partnerships. Joint ventures can also be categorized as contractual or equity ventures. Equity joint ventures are “limited liability corporations with the status of a legal entity.” The profit distribution is determined by each firm’s equity share (Simyar and Argheyd 1987 pp. 231). Contractual joint ventures occur when the foreign participant provides the “land, natural resources, labor force, services, utilizable buildings, equipment or facilities.” Financial support, technological input, and key production material are supplied by the parent firm. The profits are not divided by equity shares but instead by an amount agreed upon in the contract (Simyar and Argheyd 1987).

Joint ventures are a means of distributing risk and taking advantage of each other’s strengths. A company that is technologically advanced can team up with a foreign firm that has an extensive understanding of the target market or form a joint venture with a company that has more international marketing capabilities. Joint ventures can also be initiated to cooperatively fund an international marketing project. Joint ventures are often used by exporting firms that are interested in increasing their involvement in the target market and have decided to share the equity investment and risk with a local partner (Keegan 1989).

Joint ventures are advantageous for several reasons. They are a means of avoiding the transaction costs that accompany the acquisition of another firm. Joint ventures allow firms to share the financial and managerial burdens of starting a company from the ground
up in a foreign market (Hennart and Reddy 1997). According to Ravara and Connor (1997), joint ventures are advantageous because they are reversible and, therefore, have no sunk costs. “Shared ventures are temporary investment vehicles, which will either disappear or be converted into wholly owned subsidiaries at some point in time” (pp. 60).

At times, joint ventures are the only feasible mode of market entry. Some countries have policies designed to keep national wealth at home and, therefore, do not permit direct ownership by foreign entities (Keegan 1989). A joint venture may also be the optimal mode of entry in countries that are culturally and legally different from the United States. Local businesses in the target market generally understand regional commerce better than foreign firms. Joint ventures have a buffer effect between the parent company’s procedures and values, and those values predominant in the target market (Simyar and Argheyd 1987).

Joint ventures are a means of gaining more control over the production, marketing, and sale of the products, providing access to local market knowledge and even a local identity. Additionally, given the increased equity invested by the foreign partner in comparison to a no equity-based contractual agreement, the chances of success of the operation are higher (Business International Corporation 1992).

Conversely, joint ventures elevate the level of risk for the participating companies. First, there is an exchange of sensitive information. If it is important to keep a technological advantage internal to the firm, a joint venture may not be the optimal strategy. Second, negotiations concerning profit share and strategic planning can be quite challenging, and shared management can become a problem. If the companies do not have compatible management philosophies, or if they have different business traditions, and
different cultural values, there is potential for conflict. According to Cundiff (1988), the closer a joint venture approaches a 50/50 partnership, the more potential there is for disagreement concerning issues such as marketing plans, administrative policies, budgeting, dividends, and personnel management.

Subsequently, the casualty rate of joint ventures is high. One of the two partners can “divorce” its affiliate company, or leave before the joint venture is mature (Business International Corporation 1992). In a study conducted by Franko (1971), over 33 percent of the 1,100 joint ventures examined in the study ended in a separation. Another study by Wright (1979) found that joint venture liquidations between U.S. and Japanese companies increased by 600 percent between from 1972 to 1976. Conflict is not the only source of separation. In many cases, joint ventures are dissolved in order to construct wholly owned subsidiaries, a direct investment in the foreign market.

Foreign Direct Investment

According to Rosillo and Abbott (1997), a current trend in the global agro-food system is the increased development of FDI, the export of assets and skills rather than products. By 1994, processed food product sales from U.S.-owned foreign affiliates were four times higher than U.S. value-added food exports (Henderson, Handy, and Neff 1996). In 1996, Henderson, Voros, and Hirschberg found that sales from foreign affiliates of 144 food processing firms worldwide exceeded exports from their home-based facilities by a 5 to 1 ratio. “The most prevalent means by which processed foods reach overseas markets is through domestic firms that operate affiliated foreign processing and distribution facilities” (Henderson, Handy, and Neff 1996 pp. viii)
There are different types of foreign direct investment. For example, a parent firm may purchase an existing company that already manufactures in the foreign country by means of acquisition or merger. It may choose to build a new enterprise, otherwise known as greenfield investment (Root 1994). However, according to Overend, Connor, and Salin (1997), the majority of FDI is the result of a merger or acquisition rather than greenfield investment.

Direct international investment can be horizontal or vertical. Vertical FDI occurs when the parent firm invests in an operation that carries out a different economic activity in the supply chain. Horizontal FDI, which is the most common type of foreign direct investment for U.S. food firms, implies that the parent firm invests in a foreign operation to execute the same activities as the parent firm (Reed and Ning 1996). The foreign facility can be as simple as an assembly plant that relies entirely on imported resources or as elaborate as a fully integrated production plant operating on foreign inputs (Ferdows 1997).

The parent firm may also choose between establishing a branch or a subsidiary. A branch is an entity owned by the parent firm that is simply located in another country. A subsidiary is also owned by the parent firm, but is actually incorporated into the foreign country and is subject to its laws. According to the Business International Corporation (1992), the choice between the two is often based on tax and legal considerations. For instance, if the parent firm invests in a branch, it can write off any losses against its own taxes. The parent firm is subject to fewer restrictions and requirements imposed by the foreign government, especially regarding employment regulations and declaration of financial information. If the parent firm creates a subsidiary, however, it is subject to all of
the foreign country’s regulations but is also able to take advantage of the tax incentives which only apply to locally incorporated firms.

There are many factors that induce FDI. Companies often invest in the target market to gain control over the use of certain international assets (Henderson, Handy, and Neff 1996; Reed and Ning 1996). Tariff and non-tariff trade barriers, as well as high transportation costs for processed products may provoke a firm to invest directly overseas (Wilson 1997, Oster 1994, Ferdows 1997, Wang and Connor 1996). “MNCs establish foreign affiliates primarily to access and serve the host country market” (Handy and Henderson 1994 pp. 227). Firms invest in foreign operations due to “capital subsidies and decreased transaction costs . . . and also to get closer to their customers and suppliers, to attract skilled and talented employees, and to create centers of expertise for the entire company” (Ferdows 1997 pp. 73). It may be more profitable for a firm to operate directly in the target market due to internalization considerations such as technology or managerial capital (Henderson, Handy, and Neff 1996). By establishing a facility in the target market, a firm’s costs may decline due to less costly local resources such as raw materials and energy. Taking advantage of lower cost advantages, or “global sourcing,” allows companies to ensure a higher quality product and a more consistent source of supply (Jain 1996).

Firms can also gain a more immediate entry into a foreign market by buying a leading brand manufactured there. By doing so, the parent company can increase international sales volume, improve its growth rate, ensure a shorter payback period since the return on investment is sooner, and achieve economies of scale more quickly than if the firm was to start from the beginning, as is the case with greenfield investment (Henderson,
Handy, and Neff 1996). FDI gives firms the opportunity to exploit comparative advantages internal to firm. “Patent rights, brand recognition, technological superiority, available capital [and] market power . . . can be captured more fully through foreign direct investment” (Reed and Ning 1996 pp. 185).

FDI, however, has the highest financial and managerial requirements necessary to successfully enter, and operate within, the target market. Due to the positive correlation between the level of investment and firm-related vulnerability, as equity exposure increases so does the risk related to the venture. Greenfield investments are very expensive and require substantial commitment of time, effort, and managerial ability. In addition, building an overseas operation from the ground up involves acquiring permits for land use, construction, waste disposal, and other types of environmental management issues which can delay the firm considerably. Generally, greenfield investments also have an initial period of negative cash flow (Business International Corporation 1992).

With FDI there may be political risks, such as regulatory changes, that discriminate against foreign firms, allowing the foreign government to confiscate some of the parent firm’s assets. Currency risk may make it difficult for the parent firm to repatriate the profit that it earns. The company may suffer from a devaluation of the local currency which can have a negative effect on the value of the firm’s assets (“The Superdollar”). For example, several large U.S. firms built facilities in Mexico in response to rising incomes and economic stability. When the devaluation of the peso caused an economic crisis in the country, those same firms were faced with drastic cuts in revenue.

When the parent firm acquires or merges with a foreign operation, post-acquisition problems may occur. The parent firm must integrate the foreign entity with all of its
policies, values, and organizational culture. The complications of integrating the acquired company can have a negative effect on the parent firm’s efficiency and performance (Business International Corporation 1992). It may also be difficult to change personnel and labor relations. In some countries, such as those countries in western Europe, it is even difficult to release workers because of strict labor regulations and severance requirements. Therefore, whether the parent firm is building from scratch or merging with a foreign company, it must recognize that the new operating conditions may require new modes of organization, communication, and management (Cundiff 1988).

Summary

The entry modes described in this section, export entry, non equity-based contractual agreements, joint ventures, and FDI, constitute the primary groups of entry modes from which firms can choose. The dynamics of the entry mode decision are described in the following section.

Framework for Analyzing Strategic Options

The method by which a firm chooses to enter a foreign market plays an important role in the market entry mode decision (Rosillo and Abbott 1997). Several authors (Jain 1996, Dichtl and Koglmayr 1987, Root 1994, Ryans and Rau 1990) posit that the strategic entry mode decision is a process of evaluating associated groups of factors with respect to the firm’s resources and have developed the following guidelines for making the entry mode selection.

Jain (1996 pp. 505) asserts that the level of entry risk, and therefore the level of commitment, (e.g., the optimum mode of entry) is dependent on five primary factors: 1) The characteristics of the product, which can include such elements as product quality,
standardization, or differentiation. 2) The target market’s macroenvironment, which refers particularly to economic and political factors, as well as the consumption patterns and level of demand of the consumers in the target market. 3) The firm’s competitive position, which corresponds closely to the firm’s strengths and weaknesses as well as the product’s stage in the international product life-cycle. 4) The cost and availability of input resources, with reference to the firm’s capital budgeting considerations. 5) The management’s perceptions of cultural distance between the parent firm and the target country, which influence the firm’s preference for the level of control and risk-aversion. According to Jain, these five factors are the most important company resources to evaluate before choosing a mode of entry into the international market in question.

Dichtl and Koglmayr (1987) claim that the entry mode decision should be evaluated incorporating six primary sets of factors: macroeconomic risks, microeconomic risks, political risks, administrative risks, cultural risks, and legal risks (Figure 5).

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<tr>
<th><strong>Macroeconomic Risks</strong></th>
<th><strong>Microeconomic Risks</strong></th>
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<tbody>
<tr>
<td>Currency risk</td>
<td>Market entry risk (demand and competition)</td>
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<tr>
<td>Transfer risk</td>
<td>Market handling risk (price, product, distribution, and communication)</td>
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<td>Contract fulfillment risk</td>
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<td>Manufacturing risk</td>
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<td>Transport and storage risk</td>
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<th><strong>Political Risks</strong></th>
<th><strong>Administrative Risks</strong></th>
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<tr>
<td>Unrest, social conflicts, or war</td>
<td>Bureaucracy</td>
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<tr>
<td>Confiscation of goods</td>
<td>Inefficiency of public administration</td>
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<td>Government limitation of foreign trade</td>
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<th><strong>Legal Risks</strong></th>
<th><strong>Cultural Risks</strong></th>
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<tbody>
<tr>
<td>General legal requirements</td>
<td>Language</td>
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<tr>
<td>Legal enforcement of contracts (collection risk, legal action risk)</td>
<td>Way of life</td>
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<tr>
<td>Habits and practices surrounding the closing of a contract</td>
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Figure 5. Framework for Analyzing Strategic Options - 1.
Root (1994) devised a general framework for organizing influential factors by dividing them into three sections: target country factors, home country factors, and company factors (Figure 6). Company factors are internal to the firm. They include the level of product differentiation or standardization, the level of pre- and post-purchase service required for the product, and the level of technological advancement associated with the product. Firms’ availability of resources, such as capital, management, technology, and production and marketing skills, affect their entry mode options. However, the availability of a firm’s resources is only applicable to the extent that the management is willing to use those resources for the international venture.

![Diagram of Foreign Market Entry Mode Decision]

Figure 6. Factors Affecting Foreign Market Entry Mode.
The external factors are divided into two sectors: those factors that affect the firm from home and those factors that affect the firm from the target country. In essence, the firm must evaluate the same factors from both sources: market factors, environmental factors, and production factors.

In the target country, market factors include variables such as market size and the competitive structure of the market. A large market, for example, affords higher levels of commitment because the profit potential justifies a higher break-even level. The importance of the size of a market is also a function of its competitive conditions; if the target market is already intensely competitive and is reaching maturity, then it may not warrant direct investment despite its size. Likewise, although a firm may be growing rapidly, if it is small, it may not warrant direct investment because the average costs of local production will be high relative to what it would cost to export the product to the target market (Wilson 1997). The production factors in the target market consist primarily of the price and availability of inputs and the impact of logistical relationships such as the transportation facilities and the communication infrastructure. The environmental factors in the target market produce such variables as the political climate, cultural distance from the home country, and the economic conditions of the consumers in question.

These same groups of factors affect the entry mode decision, though primarily from an economic perspective. The first question is whether it is economically more feasible to produce the product in the home market and export it to the target market, or to globally source the inputs needed and establish a facility overseas. This decision depends heavily on input prices and logistical relationships in the domestic market. The government policies of the home country also affect the propensity of a firm to choose a certain entry
mode. For example, the U.S. government currently promotes export entry designed to financially assist firms producing their product in the United States rather than producing it abroad (Connor and Schiek 1997).

According to Ryans and Rau (1990), the optimal strategy for a firm is a function of the firm’s available resources and its level of commitment to the target market.

Low risk alternatives are often used by companies that lack capital or experience, or that prefer to implement a conservative strategy until the potential of the market has been fully assessed. Firms will also choose to utilize low commitment alternatives such as exporting when the domestic and target markets are very similar or when the firm has found a niche market but does not have enough capital to make major investments in the target market. Full commitment alternatives are for companies that desire a consistent presence in the target market and are willing to commit the resources to do so.

The interesting elements of this framework (Figure 7) are cells one and four. Much research has been done on export entry and FDI, however, many other options are utilized by firms which are not discussed in the majority of entry mode studies. Cell one depicts those firms that are large, but choose to commit a relatively small portion of their resources to a market. This decision may result in the establishment of a sales warehouse or an assembly operation, for example. Cell four illustrates the results of small firms that commit a relatively large amount of capital to the international venture. According to Ryans and Rau (1990), this decision often represents firms that procure a high percentage of their total revenue from sales in the target market.
<table>
<thead>
<tr>
<th>Large Firm</th>
<th>Low Commitment</th>
<th>High Commitment</th>
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<tbody>
<tr>
<td>1. Small investment relative to size</td>
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<tr>
<td>• Sales/Warehouse</td>
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<td>• Contract Manufacturing</td>
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<td>• Cross-Marketing</td>
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<td>• Licensing</td>
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<td>2. Foreign Direct Investment</td>
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<td>• Mergers</td>
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<td>• Acquisitions</td>
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<td>• Greenfield investment</td>
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<td>Small Firm</td>
<td>3. Export entry</td>
<td>4. Large commitment relative to size</td>
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<td>4. Large commitment relative to size</td>
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<td>• Joint venture</td>
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<td>• Contractual agreement</td>
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Figure 7. Framework for Analyzing Strategic Options - 2.

Though the general guidelines presented here vary in terms of structure, the common denominator is that the entry mode decision is a complex process, affected both internally and externally by a spectrum of international and domestic factors. The guidelines also provide clear indication that there is controversy over which factors are the most important to a firm’s choice of entry mode.

Literature Review

The literature review includes studies that have isolated variables found to induce the employment of specific types of international entry strategies. The research has been divided into two sections: business studies and agricultural studies.

Business Studies

Horstmann and Markusen (1996) create a decision model to simulate firms’ choice of market entry strategy between a contractual agreement with a local sales agent or establishing their own sales operation in the target market. The decision model is set in both a short-term (one period) and long-term (multiple period) context. The results show
that multinational firms will use a short-term contract with a sales agent when the market is small and the fixed costs to invest directly in the market would be high relative to the costs of the agent. Upon entering the market, the company may turn the contract into a long-term contractual agreement if the market demand remains small. However, if the market demand is high, the multinational enterprise (MNE) will redirect its assets to a wholly owned sales operation in the target market. If, before entering the market, the firm expects demand to be high, its optimal solution is to enter the market directly, without using a temporary contract. According to the authors, this option would lessen the variability in profit potential and would alleviate the unnecessary allocation of capital towards an intermediary.

Barrell and Pain (1996) construct theoretical models to analyze the determinants of FDI actualized by U.S. MNEs during the 1970s and 1980s. The empirical results show that the level and growth rate of GNP in the target markets, appreciation of the U.S. dollar, and corporate cash flow are positively correlated with FDI. U.S. labor and production costs were also found to have a positive and significant effect on FDI, though labor costs had a stronger effect than production costs. Results also show that, when the dollar is expected to appreciate, FDI is postponed, but when the U.S. dollar appreciates in the current quarter, FDI increases, however, there is a lagged effect since it occurs two quarters later.

Lee and Mansfield (1996) conducted studies on the effect of intellectual property protection (such as patents or copyright laws) on U.S. manufacturing firms’ level and form of FDI. To determine firms’ perception of risk regarding certain foreign countries, a random sample of 100 U.S. manufacturers was surveyed. The volume of FDI in the given countries was then empirically tested to examine its correlation with the perceived level of
risk derived from the surveys. The study confirmed that the volume of FDI is negatively impacted by perceived intellectual property risk. The empirical results suggest that for a 10 percent decrease in the perception risk, FDI increases by $140 million per year. Furthermore, the surveys showed that the perception of intellectual property risk is directly related to the perception of the country’s political and legal systems as a whole.

“For example, the recent passage of such laws in Taiwan seems to have had little effect on the perceived weakness of protection there, because many firms question whether they will be enforced and believe it will take many years before their doubts can be dispelled or confirmed” (Lee and Mansfield 1996 pp. 186).

In a survey of 47 multinational and 21 local private firms, Demirbag, Mirza, and Weir (1995) found that the primary reasons manufacturing firms chose to implement a joint venture strategy to enter Turkey were to obtain market share in the local market, to gain an identity in the local market, and to guarantee quality production of their products. The executives surveyed also felt that the host government’s preferential treatment of joint ventures was an important reason although, according to the author, this clause had not been in the Turkish FDI legislation since 1984.

Kwon and Konopa (1993) conducted a survey of U.S. manufacturers that were simultaneously exporting a product to one country and producing the same product locally in another country. The results of the study show that the level of local competitiveness and the availability of local production factors were the primary determinants of the firms’ choice of entry mode. Factors which did not significantly affect the firms’ entry mode choices were the host country’s business environment factors, including tariffs, legislation, and unionization.
Agricultural Studies

In this section, the research has been separated by the topic of study: export, licensing/contractual agreements, joint ventures, and Foreign Direct Investment.

Export

For consumer-ready food products, Handy and MacDonald (1989); Henderson and Frank (1990); and Malanoski, Handy, and Henderson (1997) cite that scale economies, research & development, and managerial intensity have a positive effect on the propensity of food processing firms to choose exporting as the preferred mode of market entry, while home market power and home market advertising were cited as having a negative effect on firms’ choice of exports as a market penetration strategy (Handy and MacDonald 1989, Henderson and Frank 1990).

Specific to value-added wheat products, Krause, Dooley, and Wilson (1994) conducted a cross-sectional analysis of 62 countries and found that tariffs on consumer-ready products have a significant negative impact on the demand for U.S. prepared breakfast foods, pasta products, and bakery products. “Wheat and wheat products from the United States face a variety of entry barriers, including tariffs, as they enter foreign markets. Tariffs on agricultural exports typically increase as the degree of processing increases, creating a bias toward the export of less processed products” (Krause, Dooley, and Wilson 1994 pp. v). The implications of this effect on U.S. food processing firms’ choice of market entry strategy are evident in their propensity to circumvent tariffs by means of foreign direct investment (Handy and Henderson 1994).

Goodwin, Skully, and Kapur (1997) developed a dynamic “free-entry, chain-of-value game” to analyze the foreign entry modes of firms in the U.S. rice industry. The
game options included simple export entry or vertically linked modes of export entry consisting of institutional arrangements, joint ventures or wholly owned subsidiaries. To complement the game theory model, the authors did a case study of the U.S. Conservation Reserve Program (CRP) rice export industry, and found that the low processed product is exported to wholesale or retail distributors for countries that do not have domestic rice production. High-value blend rice is typically shipped to the target market to be cleaned and repackaged before being sold in order to exploit locational advantages. In the presence of a tariff on the final product (in this case the European Union (EU) tariff which is 150% of the value of the consumer-ready product), U.S. rice firms set up polishing facilities within the EU, circumventing the tariff.

According to trade theory, using FDI rather than export entry in order to avoid trade barriers may subside since free trade agreements place more emphasis on tariff deregulation than on foreign direct investment (Munirathinam, Reed, and Marchant 1996; Henderson, Handy, and Neff 1996). However, this theory would apply only to member countries of the trading block. Upon the establishment of common external tariffs, non-member countries may choose a contractual agreement, joint venture, or FDI as an entry strategy to circumvent the tariff. “Particularly for the food and agriculture sector the issue is of substantial importance; the US has as a policy objective increasing exports while the preferred international marketing strategy of the leading US food firms . . . is sales through foreign affiliates” (Malanoski, Handy, and Henderson 1997 pp. 1).

The effect of foreign market development on food processing firms’ choice of market entry strategies has also been studied. Using panel data for a five-year period through 1990, Krause, Dooley, and Wilson (1995) tested for individual country and time
period effects on the import demand for value-added wheat products in 73 countries by means of fixed effect and random effect models. The results found that individual country effects had a significant impact on import demand for prepared breakfast foods, pasta products, and bakery products. Using the same data and a random panel approach, Krause, Dooley, and Wilson (1995) analyzed the effect of price, real average world income, and demographic factors on global trade of pasta products, prepared breakfast cereals, and bakery products. The demographic factors consisted of female labor force participation, population age distribution, and urbanization. Urbanization was found to be insignificant. However, female labor force participation was marginally significant on the increase of pasta and bakery product imports, while population age distribution was marginally significant for the import of prepared breakfast food imports. Own price income had a significant positive effect in all three cases. The net results of the study support previous literature that market growth affects firms’ choice of entry mode since it induces higher commitment to the market. Demographic factors, however, are not as influential.

Using social and economic development factors, Kefyalew and Henneberry (1997) developed market segmentation profiles for value-added wheat products and found similar results. Low per capita GDP, low standard of living, and limited market size resulted in low demand for consumer-ready wheat products. As market size and standard of living increased, demand for these products went up, justifying increased commitment to the market.

The previous studies show that market development affects the choice of entry mode. However, as a foreign market develops, it becomes unclear which is the optimal choice of entry mode: economic development either induces increased imports of value-
added products due to the substitution effect, or increases the countries’ own food processing and distribution systems, decreasing their tendency to import consumer-ready products (Barkema and M. Drabenstott 1997; Connor and Schiek 1997). The following two studies address this issue.

Using an Ordinary Least Squares (OLS) technique, Lee, Henneberry, and Pyles (1991) studied value-added wheat exports to middle income developing countries such as Hong Kong, Taiwan, Israel, and Jordan. Of the six countries studied, four showed a decrease in the demand for U.S. consumer-ready wheat products as their per capita income increased. In the Asian countries, large-scale wheat importers became net exporters of wheat flour, implying that economic growth induced the development of the countries’ own milling industries. In the African countries, imports of U.S. consumer-ready wheat products increased relative to growth in per capita income. The general results do show a development in domestic production and a decrease in consumer-ready wheat product imports, which would increase firms’ propensity to invest directly in the target market. However, due to the difference of results between geographical regions, the study also indicates that entry mode choice may be country specific.

Salvacruz and Reed (1993) analyzed the market prospects for U.S. agricultural exports of value-added wheat and beef products and, in contrast to the previous study, found per capita income growth, GDP growth rate, and agricultural self-sufficiency to be statistically significant to the increase in imports of these products. The study posits that when per capita income increases in a developing country, due to the substitution effect, consumers begin to buy more expensive imported products rather than less expensive goods produced in their own country. As the GDP growth rate increases, and as the
country becomes more agriculturally self-sufficient, it will tend to promote trade liberalization, which causes agricultural imports to increase. According to these results, market development would not motivate firms to choose FDI as a market entry strategy.

**Licensing/Contractual Agreements**

Henderson and Sheldon (1992) conducted a study of 120 of the world’s largest food firms and discovered that over half of the multinational corporations in the sample were pursuing international licensing for their branded products. By developing a game-theory model of the choice firms make between licensing or exporting their branded product, the authors were able to demonstrate the specific economic conditions where licensing is the optimum entry mode for a food manufacturing firm. The model illustrates that licensing is beneficial if the incumbent firm is expected to fight the entry (thereby resulting in a price war) or if there are legal or institutional barriers that prevent the firm from otherwise entering the market (such as excess capacity or precommitment arrangements by the incumbent firm).

Saggi (1996) found that firms will choose licensing over foreign direct investment if the licensee can be prohibited from becoming a rival. If the licensee cannot be prohibited from becoming a rival, the firm may internalize the technology transfer in order to alleviate the creation of a competitor, which would lead to foreign direct investment.

Thilmany and Hams (1996) conducted a case study of Mrs. Field’s Cookies, a private U.S. company known for premium baked goods. The primary factors inducing the firm’s use of franchising were lack of experience in the target market, lack of funds, and the perceived level of risk related to Mexico’s unstable economic conditions. Once having entered the market, Mrs. Field’s chose to strategically source an additional amount of its
product in Mexico and Australia in order to deal with the economic and financial risk of being located in foreign markets and because of the two countries’ “geographical proximity and current status in the international trade regions they expect to enter - Central and South America and the Pacific Rim” (pp. 36). For the purpose of quality control, Mrs. Field’s chose to directly source its own frozen dough, establishing a dough manufacturing facility in Mexico. The author’s final conclusions were that the company and its franchisees would be at a competitive disadvantage if they had not moved a percentage of their production out of the United States.

**Joint Ventures**

According to Hennart and Reddy (1997), the “digestibility” of a foreign firm’s assets is high when, upon acquisition of the firm, assets, such as the labor force or primary business activities, are difficult to integrate into the parent firm. Results of the study show that the parent firm will choose a joint venture over an acquisition if the digestibility of the desired assets is high, if the target firm is very large and the desired assets are embedded in the organization, if the value of the target firm is unknown, or if the target firm is in a phase of the supply chain with which the parent firm has little experience. The study found a positive correlation between the parent firm’s propensity to choose a merger or acquisition over a joint venture, and the parent firm’s experience in the target market. In terms of vertical integration (For example, a firm in the milling industry buys a firm in the baking industry.), acquisition of, or merger with, an existing firm is preferred to greenfield investment. Acquisitions and joint ventures are used to secure additional assets possessed by a foreign firm, whereas greenfield investment is used to exploit the parent firm’s competitive advantages.
In a study of 1987-1991 data on more than 2000 international food processing ventures, Ravara and Connor (1997) found that, while large markets with a higher growth rate motivate firms to develop wholly owned subsidiaries, in the presence of market uncertainty (i.e., high risk), firms prefer to hedge their risk by choosing joint ventures. “Uncertainty places a premium on the reversibility of investments” (Ravara and Connor 1997 pp. 72). When the parent firm and the foreign enterprise were similar, parent firms preferred full ownership options. “Firms tend to choose higher commitment investment modes when they invest in ventures that substantially increase their horizontal synergies within a market segment” (Ravara and Connor 1997 pp. 76). The study also disproved the hypothesis that low commitment entry modes are preferred in highly competitive markets. Instead, they found that in rivalrous markets, firms tended to choose full ownership strategies over shared venture options.

**Foreign Direct Investment**

Firm-specific assets or “intangible” factors, such as differentiated products, unique brands and trademarks, or established loyalties with suppliers and customers, are increasingly common in theoretical justification of foreign investment. Processed food manufacturers invest substantial sums of human and financial capital into the differentiation of their consumer-ready products and may initiate foreign involvement for the purpose of exploiting its comparative advantages.

Most of the recent studies on factors related to FDI have focused on variables depicted in Dunning’s ownership-location-internalization (OLI) paradigm, an eclectic theory of international production which represents “ownership advantages, locational considerations, and internalization gains” (Henderson, Handy, and Neff 1996 pp. 74).
model was derived because traditional or neoclassical theory assumes factor immobility and perfect competition. In reality, FDI is characterized by the transfer of physical assets, and firm decisions are often made to exploit opportunities resulting from disequilibrium conditions. Therefore, neoclassical trade models do not address why specific choices are made in a given firm (Overend, Connor, and Salin 1997; Rosillo and Abbott 1997). “One problem of trade theory is that what is assumed away to make general models manageable is also the interesting question which needs to be answered” (Rosillo and Abbott 1997 pp. 137).

Table 1 presents a synopsis of the factors which have been associated with the propensity of firms to implement FDI as a market entry strategy in previous literature.

Table 1. Factors Associated with the Propensity of Firms Implementing FDI as an International Market Entry Strategy.

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<td>Home Market Share</td>
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<td>Product Differentiation</td>
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<td>Cultural Linkage</td>
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<td>Trading Block Memberships</td>
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<td>Strong Home Currency</td>
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<td>Foreign Market Growth</td>
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<td>Low Foreign Income Tax Rates</td>
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Source: Henderson, Handy, and Neff, 1996; Malanoski, Handy, and Henderson, 1997.

Table 1 shows that intangible assets, firm size, advertising intensity, research & development (R & D), home market share, and foreign market growth have been cited the most often as positively and significantly related to FDI, followed by product differentiation, cultural similarity, and trading block membership. “Intangible Assets,” in
this case, refers to Foreign Marketing Expertise, Multi-plant Management Experience, Technological Expertise, Specialized Human Capital, and Managerial Intensity (Henderson, Handy, and Neff 1996; Malanoski, Handy, and Henderson 1997).

In a study of five major U.S. food manufacturers (H.J. Heinz, CPC International, Campbell Soup Company, Kellogg Company, and Hershey Foods), Overend, Connor, and Salin (1997) analyzed the choice food processing firms make between export entry or FDI. For each of the five firms, export data were derived from the PIERS database, and 16 years of quarterly data were developed. Noting the possible influence of a small sample size, the authors concluded that, relative to exports, FDI does not become the primary vehicle of international sales until after the MNE has acquired 15 to 30 overseas subsidiaries, implying that size is a major factor in firm’s decision to use FDI as an entry strategy. Furthermore, they found that there is “considerable heterogeneity among food manufactures regarding their choice of international sales strategy” (pp. 33). The authors cited that in order to improve the predictive power of their model, it would be beneficial to study size, experience abroad, product diversification levels, and internal management structures to determine the impact on firms’ choice of international entry mode.

In a study on the incentives for FDI of 17 U.S. food processing firms selling processed meats and preserved fruit and vegetable products, Hagen (1997) found product development expertise, process management knowledge, and reputation to be the primary intangible assets that motivate firms to implement foreign production. The study also showed that high total firm sales are positively and significantly related to the probability that a firm will own foreign production plants.
Malanoski, Handy, and Henderson (1997) found that advertising intensity, product diversity, and economies of size have a significant positive impact on the extent of firms’ globalization. The mean FDI for firms with diverse product lines was significantly higher than firms with narrow product lines. In large firms, FDI was 10.7 times more extensive than exports. The authors also stated that international experience influences firms’ choice of entry mode.

“Because the choice of entry strategy depends on a firm’s perception of risk, the use of exports and FDI . . . will vary with international experience. Firms with greater international exposure may vary their strategies, using exports then FDI in some markets (the risky ones) but choosing to move directly to FDI in others” (pp. 22).

In a study of factors influencing FDI in Central and Eastern European Countries (CEEC) Moeller (1997) surveyed 32 German food manufacturing firms that were either exporting to or had invested directly in Poland, Hungary, Russia, the Czech Republic, Romania, and Ukraine. The results of the survey showed that international experience, gaining access to resources in the target market, experience with trade in the CEEC, and lack of domestic growth induced firms to invest directly in the markets. The author found that there was a positive correlation between the level of FDI and the management’s perception of risk in CEEC as well as its degree of experience with CEEC cultures. Export entry was predominantly used by firms that perceived CEEC as being high risk or by firms that were experiencing a growing domestic market. Interestingly, as Rosillo and Abbott found in their case studies, “entry mode will differ not only across industries, but also across firms in the same industry” (1997 pp. 155); Moeller also found that small firms with very little foreign experience had invested directly in foreign markets. These findings
illustrate that the entry mode decision is firm-specific and that not all firms follow a predictable pattern of internationalization.

Helpman and Krugman (1985) found that a firm’s propensity to invest directly in a foreign market is dependent on economies of scale, and firm or product differentiation (such as management expertise, marketing technology, and highly specialized product-specific R & D). The authors concluded that firms will choose the location of their production facilities based on cost-minimization factors and will then “export” the intangible assets which are often protected by keeping them internal to the firm until it becomes more advantageous to locate production facilities in the foreign market.

Using a generalized least squares regression on time-series data for six developed countries over a period of seven years, Ning and Reed (1995) found that cultural similarities between the United States and the host country (based on language parallelism), membership in trading blocs, the size and growth rate of the target market, foreign tax incentives, and exchange rate differentials are all significant country-specific factors that determine whether a food manufacturing firm will directly invest in a given country. Due to the fact that the wage rate differential factor was not found to be significant, the authors assert that cheap labor is not as important as other factors with regard to their entry mode decision. The authors support this conclusion (pp. 84) by noting that U.S. food processing firms “are not going to Central American or African countries for processing facilities. Food processors invest in stable economies that provide excellent growth potential for their output, not to escape high wage rates in the United States.”

Reed and Ning (1996) found that multinational firms tend to be capital intensive and product-diverse, and claimed that firm-specific advantages are required for foreign
direct investment in order to offset the transaction costs of establishing a firm outside the domestic market. However, the study found that technology and R & D do not have a significant impact on firms’ decision to use FDI as a mode of market entry, asserting that FDI may be more closely related to gaining access to a market rather than exploiting technological advancements. Furthermore, the authors claimed, “Firms with substantial involvement in research and development may prefer to export products rather than risk having their technology flowing to foreign countries as a consequence of direct foreign investment” (pp. 194). Henderson, Handy, and Neff (1996) claim that the greater the product uniqueness, the more closely the parent firm must work with consumers in the target market. Firms that must work closely with the consumers will, therefore, invest directly in the market by building an on-site facility.
CHAPTER 3

METHODOLOGY

This chapter describes the research methodology instrument used in the study. The purpose of the research instrument was to investigate the primary motivations behind firms’ entry mode choices as a strategic response to factors in the global food market.

Primary Issues

There were two fundamental issues concerning the procurement of firm-level information on factors affecting the choice of foreign market entry strategies in the value-added wheat industry. First, the necessary information could not be inferred from aggregated industry data since such data were limited. Second, aggregated industry data would not provide the answers to the study’s questions regarding the firm-level decision making process. Subsequently, a survey of international sales and marketing managers was conducted. The research analysis was based on primary data collected from a written survey as well as in-depth personal interviews. This method was selected in order to penetrate the actual decision making process of the companies in question, and to uncover the incentives behind firm-level behavior in the value-added wheat industry.

Approaches Used in Previous Studies

Using Root’s entry mode literature and Porter’s value-chain and global industries analysis, Rosillo and Abbott (1997) created an economic framework in the form of a profit maximization problem to evaluate discrete entry mode alternatives (export, contractual agreements, IFT, or FDI) for U.S. and European multinational food processing firms. Similar to a cost-benefit analysis, constraints and transaction costs, as well as the trade-offs
between entry mode options in terms of revenue and cost implications, were considered in order to derive the optimal entry mode. A case study of Kelloggs was then used to supplement the traditional analysis in order to apply the model to the food manufacturing industry.

Ravara and Connor (1997) analyzed multinational food companies’ entry mode strategies with a compound option model. The model was derived from real options theory and provided a decision rule to illustrate the optimal entry mode given different market environments. The market entry model assumed that multinational food firms have an initial portfolio of joint agreement alternatives to choose from. The use of shared ventures was compared to buying a call option, or selling short a certain quantity of production from the portfolio of ventures. According to the model, upon purchasing the partners’ shares in the joint venture and converting them into a fully owned subsidiary, the firm implements an activity similar to exercising the call option. To supplement the option model, a multinomial logit analysis (MNL) was used on data gathered on 2,465 international ventures located in 66 countries belonging to the world’s largest multinational food manufacturing companies.

In order to discover what executives in the industrial sector perceived as the key reasons that influenced their decision to use joint ventures as an entry strategy to penetrate the Turkish market, Demirbag, Mirza, and Weir (1995) conducted a survey by mail and by phone of 47 multinational and 21 local private firms which were parent firms to joint ventures in Turkey. The questions used in the survey were both structured and open. Frequencies were used to tally the variables chosen most often by the firms, and factor
analysis was applied to the motives stated in the questions in order to rank the motives cited by the respondents.

Hagen (1997) studied the foreign production incentives of food processing firms by interviewing executives in the processed meats, and preserved fruit and vegetable product areas. Hagen also conducted a survey in order to derive the factors which the executives perceived as important in their decision to establish production facilities overseas. A regression analysis was then administered on determinants of foreign production for seventeen U.S. food processing firms in the two product areas that were involved in nine international regions.

In their research of the effects of quality regulation on foreign market entry strategies for U.S. processed food products, Hooker and Caswell (1996) also defended the use of case studies. The authors asserted that a lack of quantification about business decisions regarding international food export and sales, combined with the complex interaction of variables common in international ventures, render case studies “the most fruitful means to investigate the dynamic effects of . . . regulation on FDI and the processed food trade” (pp. 241).

Claiming that there is a wide difference between firms’ individual international market entry decisions and total FDI flows, Reed and Ning (1995) conducted an analysis that centered on 5 case studies supplemented by a regression analysis on 34 firm observations. Regarding firms’ decisions and the degree of foreign direct investment strategies, case studies were used to ensure a closer similarity to the experiences of businesses directly investing in foreign markets.
Other studies have researched factors that induce the use of certain market entry strategies by conducting statistical analysis using aggregated, industry-level data representing the flow of U.S. food product exports and the use of FDI. For example, to analyze firms’ choices between exports and foreign direct investment, Overend, Connor, and Salin (1997) used data from five U.S. food manufacturers, representing diverse food product lines, that were simultaneously implementing exports and FDI outside the United States. Sixteen years of quarterly export data were developed for the five companies from the Port Import-Export Records (PIERS) database, while each firm’s extent of FDI was estimated based on the number of overseas subsidiaries it owned. Henderson, Voros, and Hirschberg (1996) also used empirical approaches, conducting statistical analysis of FDI flows based on collective industry-level data.

In a study of socio-cultural distance and firms’ choice of joint ventures, Agarwal (1994) created a model consisting of two control variables and five multiplicative terms involving socio-cultural distance, on which a regression analysis was conducted. In response to the results, the author stated, “One direction [for future study] would be to rely less on secondary data. Studies can be performed on the basis of questionnaire surveys that would allow modeling of managerial perceptions rather than objective but proxy indices” (pp. 76).

Selection of Survey Sample

The target population for the study was identified from several industry and government sources including the Milling and Baking News “Top 25 Corporate Profiles,” the Company Profile database (COP) which categorized firms by Standard Industrial Classification (SIC) codes, the Bakery Production and Marketing Redbook “Statistical
Analysis of Top 100 Wholesale Bakeries” directory (July 15, 1996), all available state Department of Agriculture export directories, the PIERS Database “Top 100 Food Companies” directory, and the 1996 Food Marketing Institute “Food Export Showcase” directory.

The target population was limited to those firms in the value-added wheat industry that sold at least one of the six following value-added wheat products internationally: 1) cereal breakfast foods; 2) bread and other bakery products; 3) cookies and crackers; 4) frozen bakery products; 5) prepared mixes and doughs; and 6) pasta products such as macaroni, spaghetti, vermicelli, and noodles. Products such as flour and other grain mill products were not included in the survey.

Firms were categorized based on the worldwide system of SIC codes, a global method for classifying industries by four-digit codes assigned to sectors of commerce according to the product(s) that they sell. Cereal breakfast foods, for example, are classified as SIC 2043. All firms selling SIC code 2043 were subsequently included in one sector of the target population.

Once the initial sample which consisted of approximately 150 companies was derived, each firm was screened by telephone to ensure that it met the following criteria: 1) the firm was involved internationally with the sale of at least one of the six value-added wheat products under study; 2) the contact person who would subsequently fill out the survey was one of the primary managers responsible for the company’s international marketing ventures; and 3) he/she was willing to participate in the research project. Eighty-one companies qualified for the survey, of which 28 firms participated, resulting in a response rate of 35 percent.
Survey Design

The survey instrument consisted of three sections: 1) Basic Firm Information, 2) Product Differentiation and Innovation, and 3) International Market Entry Strategies. The survey was structured in a form that allowed the managers to indicate the relative importance they perceived in various factors by ranking various sets of variables and rating others on their appropriate scales. The instrument also included open-ended questions where respondents could write in explanations of their responses or include additional variables that had not been provided as motives for their decision in the survey.

Variables from the literature review formed the basic structure for developing the survey instrument used for collecting the primary data. Table 2 gives a synopsis of the factors which were included in the survey and how they were measured.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Measure</th>
</tr>
</thead>
<tbody>
<tr>
<td>Product and Process Innovation</td>
<td>Expenditures on Research and Development</td>
</tr>
<tr>
<td>Product Differentiation</td>
<td>Advertising Expenditures</td>
</tr>
<tr>
<td></td>
<td>Self-Rating of Differentiation Level</td>
</tr>
<tr>
<td>International Commitment</td>
<td>Foreign Sales as a Share of Total Sales</td>
</tr>
<tr>
<td>Home Market Dominance</td>
<td>Domestic Market Share</td>
</tr>
<tr>
<td>Size of Firm</td>
<td>Total Number of Employees</td>
</tr>
<tr>
<td></td>
<td>Gross Sales</td>
</tr>
<tr>
<td>Multinationality</td>
<td>% of International Employees</td>
</tr>
<tr>
<td></td>
<td>% of Total Assets that are International</td>
</tr>
<tr>
<td></td>
<td># of Countries Selling Products to</td>
</tr>
<tr>
<td></td>
<td>Separate International Sales/Marketing Division</td>
</tr>
</tbody>
</table>

Basic Firm Information: International Involvement

The survey did not require the use of screening questions since the firms had been previously screened by telephone. Therefore, the instrument began with questions that
helped determine the companies’ levels of international involvement. The data derived from these questions could then be used to statistically analyze the impact international commitment, both managerial and financial, has on the mode of international market entry utilized by a firm.

To classify the firms and to ascertain each firm’s level of product variety in terms of foreign market involvement, the respondents were asked to indicate which of the six value-added wheat product lines they sold internationally. To qualify the firms’ extent of commitment to international markets, the respondents were asked whether they planned to expand into new international markets or expand their current international projects in the next five years.

Agarwal (1994) measured the degree of multinationality as the proportion of a firm’s total assets that are located in foreign countries and cited that other studies have measured multinationality by counting the number of countries in which a firm operates or has established affiliates. To determine multinationality for this study, the respondents were asked to indicate the percentage of total assets that were international and the number of countries within which the firm was selling its products. To determine the extent of resources and general makeup of the administrative commitment the firm had made to international markets, the respondents were asked to indicate whether the firm had an international sales and marketing division separate from its domestic marketing and sales division, and the approximate number of employees currently working on international marketing and sales.

To quantify the firms’ level of international commitment, the respondents were asked to supply the firms’ estimated value of international sales and estimated value of
export sales for 1996. Given that the firms were asked to supply the total sales from 1996 later in the survey, their international ratios, or foreign sales as a share of total sales, could be calculated. The result gives an indication of the parent firm’s commitment to international sales (Reed and Marchant 1992; Overend, Connor, and Salin 1997). In addition, the percentage of export sales with respect to international sales could also be derived.

To test the relationship between international experience and the choice of entry mode, respondents were asked to verify the number of years the firms had been selling their product(s) outside the United States and the years of international experience held by the marketing manager. In a study of international investment decisions, Bjorkman and Eklund (1996 pp. 52) noted the impact of a change in management on entry mode decisions. They found that the choice of entry mode was often affected by a “newly appointed business executive and the experience of this person rather than the experience of the company as a whole.” Therefore, the number of years that the international sales and marketing manager had been in his or her position was also asked in the survey.

Firm Size and Home Market Dominance

Within the section of Basic Firm Information for 1996, firms were asked to indicate the approximate number of employees, total sales, and their estimated U.S. market share. The results of these questions indicate the companies’ firm size and their dominance in the market.

Product Differentiation and Innovation

The second segment of the survey instrument investigated the firms’ level of product differentiation and innovation. Unfortunately, it is difficult to measure the level of
intensity of intangible assets in a firm. Firms do not include intangible assets in their financial statements and, according to Handy and Henderson (1994 pp. 226), “procedures for valuing such assets appear to vary widely among those that do.” Agarwal (1994) measured the innovation by the firm-level research and development expenditures as a ratio of total revenue. For the purpose of this study, intangible assets were measured by expenditures on advertising and R & D in 1996. The respondents were also asked to rate the firms’ value-added wheat products on their level of differentiation by grading the products’ degree of uniqueness on a scale ranging from “Undifferentiated” to “ Highly Differentiated.”

International Market Entry Strategies

The third segment of the survey consisted of questions which strictly applied to the firms’ international market entry decisions. The questions in this section were separated into four groups, each of which addressed different types of factors and modes of foreign market entry.

Entry Mode Activity

The first sub-group in section three consisted of a grid where the respondent was asked to indicate the firm’s past and current international entry strategies, including the date of initial entry for each venture, the first type of entry mode utilized in each market, and any subsequent changes in entry mode. The entry mode options included exporting, contractual agreements, licensing, joint ventures, and FDI. Respondents were asked to indicate any changes in entry mode to assess the impact of the internationalization process (the increase in a firm’s use of risk-oriented entry modes over time) on entry mode strategies. The country of sale for each type of product sold internationally was requested
so that the entry modes and the consumer-ready wheat products being imported could be clustered by geographic region.

**General Factors Affecting Entry Mode Selection**

The second sub-group in section three pertained to those factors generally cited in the literature review as key variables impacting international entry mode decisions. The respondents were to indicate the top five variables that had most affected their decision to use each type of entry mode.

**Specific Factors Affecting Entry Mode Selection**

The third sub-group in section three regarded factors particular to exporting while the fourth, fifth, and sixth sub-groups were specific to contractual agreements and licensing, joint ventures, and FDI, respectively. These divisions were set up to accommodate the rating of factors in terms of their importance to the specific entry modes. Semantic differential scales were used as the rating scale configuration. The numbers one through six were bound between polar ends ranging from “Unimportant” to “Very Important” in terms of the influence each factor had on the firm’s decision to use that specific entry mode. Six response categories were used to alleviate position bias which occurs when the respondents consistently choose the central value of the scale. This and each consecutive segment included an explanatory question at the end which permitted the respondents to include any factors that had affected their decision but had not been accounted for in the factors provided in the survey.

**Additional Factors**

The final segment of the survey comprised factors (such as the impact of government assistance programs, labor costs, and linguistic barriers) that may have
affected the firms’ selection of one entry mode over another, but that had been cited less regularly in international trade and marketing literature.

Pretest

In order to improve the questionnaire and to identify potential problems, the content validity of the instrument was established during a multilevel pretest. The variables that were ambiguous, that seemed irrelevant, or that were difficult to answer were eliminated. For example, the original survey asked the respondents to ascertain a value of their intangible assets, which would have included such factors as managerial expertise and international know-how. Firms would have had a hard time putting a quantitative value on these assets, and the factor was, therefore, removed from the instrument.

The pretest was administered progressively on three companies. The first pretest was administered to the international marketing director of a local food processing and exporting company. The respondent completed a “protocol analysis,” in which the questions were discussed while simultaneously filling out the survey. The protocol analysis helped to indicate areas of doubt or confusion. After this pretest, additional factors were included, and the wording of several questions was changed. The second level of the pretest was administered to the international marketing director of another local food export company who also performed a protocol analysis, while the third level of the pretest was administered to the international marketing manager of a multinational food processing firm who completed the survey by fax. At this level of the pretest, no further changes were made.
Survey Strategy

To collect the data, a combination of faxed surveys and personal interviews was administered. Because the firms in the sample were spread across the United States, personal interviews with each company were not economically feasible. Faxing the survey emerged as the optimal strategy for several reasons. First, it was discovered through the screening process that some companies are not allowed to give sales and marketing information over the telephone. Second, lists and rating scales are difficult to administer in telephone interviews. Finally, faxing, rather than mailing, the survey provided the necessary information within the time constraints of the study.

To prevent non-response error, companies in the sample frame were given preliminary notification of the fax’s arrival. The initial response rate was only 10 percent. A follow-up contact was made by fax, yielding an 11 percent increase in the response rate. A final follow-up call was made by telephone, improving the response rate by another 7 percent, resulting in a total response rate to the faxed surveys of 28 percent. At this point, in order to amplify the response base for the study, 5 in-depth interviews were conducted with 2 multinational food companies and 3 international trade and market-development consultants, which rendered a total response rate of 35 percent. The qualitative responses from the personal interviews were kept separate from the quantitative data derived from the faxed surveys.

Firms declined to participate in the survey for two primary reasons. Despite the fact that the survey was confidential, companies were often unwilling to give out the firm-specific information as they considered it proprietary. In the case of large firms, such as Kraft and Kellogg, many had a direct policy against participating in surveys.
After the first round of surveys was administered, two sets of questions were found to be consistently unanswered by those companies that participated. The first unanswered question was the company’s total sales. Most firms left the answer blank, indicating that the information was not considered public. Firms had also been asked to indicate the estimated value of fixed assets owned by the firm and the percentage of those assets devoted to the production of goods for international sale. No company answered this question, though in this case the non-response is likely due to the fact that the companies did not know the answer to the question. The second area left blank by some companies was the section on specific international entry mode activity, which included countries of sale for each product line sold outside the United States and the entry mode used in each venture. It was explicitly indicated by these companies that the information was proprietary, and they, consequently, declined to answer.

Data Analysis

The data collected from the survey were split into two groups. The quantitative data were statistically analyzed by means of an Atchison-Silvey Model which offered a rank order of the factors most influential in firms’ choice of the mode of international market entry. The qualitative data were separately organized to supply a clear representation of the justifications behind the firms’ choices. The next chapter presents the results of the survey and the statistical analysis.
CHAPTER 4
RESULTS

This chapter describes the empirical results from the data collected in the survey. The first section presents the demographics of the survey respondents, including the nature and extent of their international activity. The next section provides the results of the data analysis regarding the primary factors affecting the firms’ choice of entry modes. At the end of the chapter are the results of the in-depth interviews conducted as part of the survey.

Demographics of the Survey Respondents

The firms in the survey sample were internationally growth-oriented. Ninety-two percent (22/24) of the companies that responded to the survey indicated intentions to increase their international involvement in the next 5 years. Eighty-eight percent (21/24) of the companies planned to enter new international markets in the next 5 years while 83 percent (20/24) of the companies planned to expand existing international markets in the same time period.

Table 3 compares the concentration of survey respondents to the composition of the U.S. value-added wheat industry as a whole. The measurement of concentration of each product category in the industry is based on the total number of U.S. processing facilities in each industry sector. The concentration of survey respondents is indicated by the percentage of companies that sell each product to at least one foreign market. Thus, the final column shows the proportion of firms in the survey sample that are involved internationally, whether through exports, contractual agreements, joint ventures, or FDI, in each of the given product categories.
Table 3. Comparison of the Concentration of Survey Respondents to Composition of U.S. Value-Added Wheat Industry

<table>
<thead>
<tr>
<th>Grain-Based Food Industries</th>
<th>Total # of Processing Establishments*</th>
<th>% of Industry</th>
<th>% of Survey Respondents that Sell This Product Category in a Foreign Market</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bakery Products</td>
<td>2471</td>
<td>81%</td>
<td>84%</td>
</tr>
<tr>
<td>Cookies and Crackers</td>
<td>379</td>
<td>12%</td>
<td>12%</td>
</tr>
<tr>
<td>Prepared Mixes and Doughs</td>
<td>149</td>
<td>5%</td>
<td>16%</td>
</tr>
<tr>
<td>Cereal Breakfast Foods</td>
<td>53</td>
<td>2%</td>
<td>32%</td>
</tr>
<tr>
<td>Total</td>
<td>3052</td>
<td>100%</td>
<td>144%**</td>
</tr>
</tbody>
</table>

**Due to firms that sell more than one product line internationally.

Thirty-seven percent (9/24) of the survey respondents were selling pasta products internationally. The Milling & Baking News Corporate Profile did not include pasta products in its count of grain-based food processing facilities; therefore, pasta was not included in the table. However, according to the U.S. Department of Commerce (1994), pasta products account for 10.75% of the U.S. value-added wheat industry. (This percentage was calculated by the volume of product shipments rather than the number of processing facilities.)

There were four types of companies that responded to the survey. The first group included smaller to medium-sized companies that dealt specifically with one type of product and had only penetrated a few foreign markets. The second group consisted of firms selling one type of product literally worldwide with the exception of only two or three countries (large, product-specific firms). The third group of companies represented those firms selling most or all of the products available in the survey to a limited number
of countries (consolidators or medium-sized firms that purchased goods from other companies in order to supply foreign customers). The final group of companies consisted of large, capital-intensive firms that were penetrating foreign markets through direct foreign investment. In this group, the types of products being sold were diverse, but each sector was developed individually and often focused on a specific region (for example, breakfast cereals in one geographic region versus bakery products in another).

The size distribution of the firms was fairly uniform. Thirty-three percent (8/24) of the firms that responded to the survey had less than 100 employees with an average of 45 persons working in each firm. For the purpose of the data analysis, these companies were categorized as “small.” Twenty-five percent (6/24) of the firms had between 100 and 3000 employees with an average of 1040 persons per firm, and were categorized as “medium.” Twenty-nine percent (7/24) of the firms employed over 3000 persons and had an average of 12,743 employees. These firms were categorized as “large.”

In terms of revenue, although not all the companies included their gross sales in the survey, the firms that did provide the information had sales that were closely related to size. The small firms averaged $6.4 million in gross sales in 1996, while the medium firms averaged $191 million and large firms averaged $2.1 billion dollars in gross sales in 1996.

Twenty-nine percent (7/24) of the firms indicated that their domestic market share was zero or that the question did not apply to them, in which case they wrote in “na.” Forty-two percent (10/24) of the firms did not indicate their market share and simply chose to leave the question blank. The 29 percent (7/24) of the firms that indicated their market share were all large. Four of these firms had an average U.S. market share of 24.55 percent, while the remaining firms averaged a domestic market share of 4.7 percent.
Figures 8 and 9 represent the entry modes used by the different sizes of firms categorized in the survey. There is a marked difference in the use of FDI by the large firms.

Figure 8. Entry Modes Used by “Large” Firms.

Figure 9. Entry Modes Used by “Small” and “Medium” Size Firms.
Frequency Distribution of Entry Modes

Of the 78 entry modes recorded by companies that responded to the survey, export entry and FDI were the entry mode options most frequently chosen by the food processing firms in the survey sample. As a whole, 68 percent (53/78) of the ventures utilized by the firms were export entry; 26 percent (20/78) of the ventures were FDI.

Concentration of Entry Modes Per Geographic Region

FDI and export entry were concentrated in different geographic regions (Figure 10). Fifty percent (10/20) of the FDI reported by the firms was concentrated in Europe, while 20 percent (4/20) of the firms’ FDI was in Mexico/South America and 10 percent (2/20) was in Canada. Correspondingly, while 28 percent (15/53) of the exports reported by the survey respondents went to the Pacific Islands, no FDI was reported by any of the companies in this region.

Figure 10. Concentration of Entry Mode per Geographic Region.
Europe and Canada accounted for fifteen percent of the exports reported by the survey respondents, while another nine percent were sent to Japan and slightly over seven percent to South America.

The only activity listed as an entry mode into China was FDI. Despite the strong representation of exporting firms in the survey sample, none of them were exporting consumer-ready wheat products to China.

**Geographic Distribution of Value-Added Wheat Product Sales**

Figure 11 shows the top four foreign markets for the firms’ wheat-based products: Europe, the Pacific Rim, Mexico/South America, and Canada. The “other” markets in the graph consist of Japan, the Middle East, and China. These percentages include exports, licensing agreements, joint ventures, and sales from foreign affiliates.

![Pie chart showing geographic distribution of wheat product sales](image)

**Figure 11. Primary Foreign Markets for U.S. Consumer-Ready Wheat Products.**

Figure 12 illustrates the types of products that were sold in each country. Sales of fresh bakery products dominated in Europe, Canada, and Mexico/South America. Most of the firms’ pasta products were being sold in the Pacific Rim while sales of cereal breakfast
foods were focused primarily on the European market. Sales of mixes and doughs were concentrated primarily in Mexico/South America, followed by the Pacific Rim.

![Figure 12. Products Sold in Primary Markets.](image)

**Internationalization Process**

In terms of the internationalization process, or firms’ changes in entry strategies over time, two interesting elements were found in the survey. All of the joint ventures put into effect by the respondents were implemented in succession to initial export entry modes. This result supports the theory that firms will progressively move from low commitment, low risk entry modes to higher risk, increased commitment entry modes over time.

However, in contrast to the theory of internationalization, each of the FDI ventures reported in the survey were executed as initial entry strategies; they were not entry modes used in response to increased commitment to the markets over time. This finding corresponds to the results of a study by Bjorkman and Eklund (1996). The authors
hypothesized that in highly internationalized industries, the same companies are often competing against one another in different foreign markets and will use the establishment of a local subsidiary as a defensive strategy to counteract an important competitor’s international position. Companies are more apt to “move directly to direct investments to minimize loss of time and/or competitive position in relation to their competitors” (pp. 36). The authors also assert that firms are more likely to “leap-frog” steps in the traditional internationalization process (e.g., deviate from the common sequence of market entry modes) when they have considerable international experience in similar markets and, \textit{ceteris paribus}, “move more directly to more advanced modes of market entry, such as the immediate establishment of a local sales unit or, even, a manufacturing subsidiary” (pp. 36). Although the authors were not able to statistically prove this hypothesis in their study, they did find an increasing tendency of the firms in their survey to start local production facilities in the target market without having established market entry through previous local operations.

**International Experience**

Thirty-four percent (9/23) of the firms had less than 10 years of experience selling their products to foreign markets. Forty-eight percent (11/23) of the companies had between 10 and 50 years of experience, with a mean of 18 years. The final 13 percent (3/23) of the firms had more than 50 years of experience in international markets, with an average of 117 years.

Those firms with less than ten years of experience only used exporting as an entry strategy, with the exception of one company that had arranged a repackaging (contractual) agreement with a trading company in one of its target markets. For those firms with 10 to
50 years of experience, of their 29 entry modes recorded in the survey, 79 percent (23/29) were export entry. While joint ventures only accounted for 3 percent (1/29) of the 29 entry strategies, the use of FDI increased to 17 percent (5/29). For those firms with more than 50 years of experience in international markets, 27 entry modes were recorded. Export entry dropped to 46 percent (12/26), licensing accounted for 3 percent (1/26) of the strategies, and FDI grew to 54 percent (14/26), supporting the common hypothesis that the use of higher risk, higher commitment entry modes increases with firms’ international experience.

Multi-nationality

The section on multi-nationality consisted of four questions which measured the level of capital and administrative resources the firms had committed to foreign markets. The first question regarding the firms’ multi-nationality asked whether the companies committed additional administrative resources to international marketing and sales, or if the domestic and international sales resources were managed jointly. Nearly half of the firms (46%) indicated that they did not have an international marketing and sales division separate from their domestic marketing and sales division. Although the primary means of market entry activity was by export, 23 percent (7/31) of the market entry activity in this group was by contractual agreement, joint venture, and FDI.

It was anticipated that there would be a positive correlation between the presence of an international division (within the parent company) and the use of entry modes such as joint ventures and FDI. The firms that did have an international marketing and sales division within the parent company clearly possessed a more extensive involvement
internationally. However, this factor was illustrated in the number of countries that the firms were involved rather than the use of higher-commitment entry modes.

The results indicate that, once firms begin to decentralize their international operations with the use of joint ventures or FDI, the “international division” is no longer considered internal but, rather, a separate division outside the parent firm. This finding was explicitly indicated by several companies that, in response to this question, stated that their “international operations are managed autonomously” and, therefore, presumed that the question did not apply to them. These firms had foreign subsidiaries and were operating extensively from their target markets.

The third question regarding the firms’ multi-nationality referred to the approximate number of employees in the companies that were working with international markets. As the proportion of international employees in a firm increases, the probability that the firm will employ a higher-commitment entry mode initially also increases. For instance, all of the firms that reported less than 10 percent of their total number of employees working with international markets were using export entry exclusively. The firms that had between 10 and 50 percent of their employees working with foreign markets utilized a combination of joint ventures, licensing, and FDI, in addition to export entry. However, the correlation between international employees and the type of entry mode ended here, as exemplified by the firms that were U.S.-based, employed 100% of their employees in international marketing and sales, and exported worldwide.

The fourth and fifth questions regarding multi-nationality were the estimate of international sales relative to total sales and the estimate of international fixed assets relative to the firm’s total fixed assets. When responding to the survey, many firms left...
these questions unanswered, either because the information was considered proprietary or because they did not have an estimate available.

**Differentiation**

This section of the survey estimated the level of product differentiation and innovation of each of the firms. The first question asked the level of total R & D spent annually by the firm, in dollars or in percentage of sales. Twenty-nine percent of the firms indicated that their R & D was “0” or “NA.” Of the remaining firms that reported their annual investment in R & D, those companies that had used higher risk entry modes all had lower percentages of investment on R & D, whereas those companies that spent higher ratios of their gross revenue on R & D were all exporting. Although many studies have cited product uniqueness as a direct impetus for foreign direct investment, these results tend to support the hypothesis by Reed and Ning (1996) and Helpman and Krugman (1985) that firms with high levels of investment in product differentiation will choose export entry over FDI to keep technology internal to the firm. Helpman and Krugman also assert that firms will export to protect their technology only until it becomes more cost advantageous to locate production facilities in the foreign market.

The survey respondents were also asked to rate themselves on their products’ level of differentiation. The scale ranged from one to six where one meant “Undifferentiated” and six meant “Highly Differentiated.” On average, the firms showed a high level of product differentiation as over half of them rated their products as five or six.

There was little variance in the mean differentiation levels between the small, medium, and large-size firms. The small firms ranked themselves, on average, 4.3 while the large firms averaged 4.4. However, when the firms were divided specifically by their
level of self-ratings (Group one, for example, consisted of those firms that rated themselves as 5 or 6, indicating that they were highly differentiated.), the results again showed that firms with higher differentiation used predominantly export entry that firms with a lower differentiation level used higher-commitment entry modes such as joint ventures, licensing, and FDI. Although the results could not be tested at a level of statistical significance, the data seem to again support the hypothesis by Ning and Reed (1996) that firms with highly differentiated products will choose to implement entry modes, such as export, that protect their level of innovation rather than risk the loss of their technology by integrating in the market.

Data Analysis

The statistical analysis applied to the quantitative data consisted of means, frequencies (see Table 5), and a maximum likelihood logistic regression model, termed the Aitchison-Silvey Model (Aitchison and Silvey 1957), which is specifically designed for the analysis of response variables rated on a numerical semantic differential scales. The Aitchison-Silvey Model is used to rank subjective response variables that have been given number values on a scale in which there is a sense direction to the values.

The Aitchison-Silvey Model finds the cumulative probabilities for each response variable, based on the ratings provided by the survey respondents, and then calculates the parameter estimates for each response variable from cumulative probabilities analyzed by the model. The response variables are then ranked based on these parameter estimates. In this case, the rankings tell us which factors would most likely be the leading factors to affect firms’ decisions to use the various types of entry modes presented to them. For the questions where the data received from the survey respondents was not ample enough to
conduct a regression, a simple informal analysis was used in which the data were converted to means and frequencies.

In Question 6, survey respondents were provided a list of factors that had been cited most frequently in the literature review as influential in firms’ use of various entry modes. The respondents were to choose the top five factors that they perceived to have most affected their entry mode decisions. The question was completed for each type of entry mode that their firms had implemented in a foreign market. Frequencies were then generated for each of the response variables.

Table 4 provides the results of the question. The table lists the factors that affected each entry mode in order of their frequencies. For example, the factor most often cited as important to the firms’ choice of joint venture was “Experience in international markets,” signifying that this variable was indicated the highest number of times as a primary influence in the firms’ choice of joint venture for entering their target market.

<table>
<thead>
<tr>
<th>Table 4. Factors Affecting Firms’ Choice of Entry Mode</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td>Joint Venture</td>
</tr>
<tr>
<td>1. Certainty of demand in the target market (19/24)</td>
<td>1. Experience in International Markets (4/24)</td>
</tr>
<tr>
<td>2. Size and growth of the target market (15/24)</td>
<td>2. Certainty of Demand in the Target Market (3/24)</td>
</tr>
<tr>
<td>3. Competitive structure of the target market (13/24)</td>
<td>3. High Level of Product Uniqueness (3/24)</td>
</tr>
<tr>
<td>5. Trade barriers (tariff and non-tariff) (10/24)</td>
<td>5. **</td>
</tr>
</tbody>
</table>

**The following three factors each had a frequency response of 1 out of 24 respondents: (a) “Cost and availability of resource in the target market,” (b) “Trade barriers (tariff and non-tariff),” and (c) “Size and growth of the target market.”
Export Entry

The two most important factors in the firms’ choice of export entry pertain to the potential demand (profit) in the target market. Certainty of demand and the size and growth of the target market had the highest frequencies at 18 and 15 percent, respectively. Although self-evident, this finding exemplifies the theory that firms begin to export in response to growing markets for food products outside the United States.

In empirical studies, these two factors are typically associated with the extent of FDI in a market, given that they justify increased investment in the market. However, in this study, an interesting element of the firms’ decision process was uncovered: the first step in the internationalization process (export entry) is fundamentally triggered by promising demand in the target market.

As explained by the comments provided by the firms both in the written surveys and in the in-depth interviews, exporting is frequently a response to unsolicited demand from international clients, or is used to explore foreign markets and test their potential. The comments support the data results, which show that certainty of demand and the size and growth of the target market are dominant factors in firms’ decision to use export entry to penetrate the market, and demonstrate that export entry is often chosen as a reflex to the potential for profit, rather than a strategic, pre-planned course of action.

From the perspective of the firms’ decision making process, export entry is the typical response to signs of potential profit in a foreign market. In terms of those firms that predetermine entry into a specific market, export entry becomes a tool to prospect the demand in a market. One executive explained that his company exports “to explore for potential direct investment later on,” while another international marketing manager of a
multi-national food processing firm claimed that export entry is used because “You don’t know if there is huge potential. You can’t predict the sales of the product.” Given that export is utilized to explore a market for further investment potential, it is equally likely for firms which anticipate entry into the market that stable demand and the size and growth of the market are the primary factors that induced their choice of export entry.

For those firms that respond to unsolicited demand, export entry is even more likely. One company commented that it chose export entry because “They wanted Western (American) products and came to us.” Another firm that started exporting from unsolicited demand wrote, “A man from Mexico approached our firm wanting to import our products.” One firm wrote that the company entered markets by export because the firm’s products were “requested by customers” while another wrote that exporting its products was a result of the fact that it already had contact with many ship owners in ports around the world and that the potential profit sparked their interest to export: “At ports people are looking for American products.”

The in-depth interviews conducted in conjunction with the written survey strongly support these results. According to an international export development consultant, “Initial export entry is rarely a planned step for new firms but, rather, a reaction to the high demand for their products in the target market.” A second consultant asserted that exporting is “Natural: the buyer initiates.” These statements are exemplified by an example provided by the international sales manager of a large food processing firm: “We started exporting due to a client in Russia that requested our products. It was our first client and is now our largest international customer. All of our international business
started through exports. People asked for our products, and now there’s a huge emphasis [on international sales].”

The third most important factor in the firms’ choice of export entry is the competitive structure of the target market. Some markets are too competitive to enter by means other than export. One firm commented that “It is difficult to sell value-added products overseas because the Kelloggs of the world have the money to go build plants over there,” while another firm commented that the company chose export entry because “In South Africa, monopolies are legal. There are difficult barriers to entry.”

“High Level of Product Uniqueness” scored fourth in the top five factors affecting firms’ choice of export entry. This result correlates closely with the results found in the informal analysis of the firms’ demographics. Firms with highly differentiated products were the most predominant exporters, while firms with less differentiated products were using more FDI and joint ventures. One firm added that “the high-end nature of our product” was a specific incentive for choosing export entry. Another firm wrote in “uniqueness of product in foreign markets” as a primary factor that affected the company’s choice to enter a market by means of export.

The fifth most important factor was “Trade Barriers (tariff and non-tariff).” The results of this factor’s importance to firms’ decision to use export is different than what was expected and is difficult to interpret. According to the literature review, the presence of tariffs normally deters export entry.

“Wheat and wheat products from the United States face a variety of entry barriers, including tariffs, as they enter foreign markets. Tariffs on agricultural exports typically increase as the degree of processing increases, creating a bias toward the export of less processed products” (Krause, Dooley, and Wilson 1994 pp. v).
Such tariffs usually increase firms’ propensity to circumvent tariffs by some form of direct investment in the target market.

The question then is whether the firms misinterpreted the question. It was found in further results of the survey that contractual agreements are often implemented to circumvent tariffs. In order to exploit locational advantages, firms may choose to export the unfinished product to the target market to be processed or repackaged before being sold. The survey respondents may consider a co-packing or co-processing agreement a means of exporting their product (rather than a contractual agreement) and, therefore, indicated that trade barriers cause them to chose exporting. If this theory is not the case, there is little information in the literature review that supports the findings that trade barriers cause firms to choose export entry and, therefore, is a response variable that is unexplained.

**Joint Venture**

The first most frequently cited factor in terms of the choice of joint ventures is “Experience in International Markets.” As experience goes up, the use of higher risk entry modes go up. This finding was supported by the data in the survey since all of the joint ventures conducted by the respondents occurred in succession to exporting, indicating that joint venture entry is the next step in firms’ internationalization process. As they gain experience and increase sales, they move to higher-commitment entry modes such as joint ventures.

The second most important factor was “Certainty of Demand in the Target Market.” Once firms have explored a market with export entry, the assurance that demand
is stable justifies the use of a higher-commitment entry mode. One company claimed that the firm chose to use joint ventures due to the “amount of business” in the target markets.

The third and fourth factors most frequently cited by the survey respondents as influential in their choice of joint ventures were “High Level of Product Uniqueness” and “Competitive Structure of the Target Market.” When a firm has a differentiated product, it may go into a joint venture to secure the resources necessary to market that product. One example given by a multinational food processing firm in the survey was a joint venture the company implemented with a world-renowned firm whose brand name would complement their product. The JV partner wanted to sell the parent firm’s product because it did not have the technology to produce it, yet it had the distribution system and international experience that the parent firm needed.

The competitive structure of the target market refers back to the issue of government regulations constraining firms to enter into joint ventures with national companies in order to enter the market. Without joining forces with a firm already established in the target market, direct entry is very difficult.

The factors that were selected at a response frequency of 1/24 included “Trade Barriers (tariff and non-tariff).” Given the discussion of using some form of direct investment in the target market in order to circumvent trade barriers, the score of this variable is consistent with the literature review and the results expected from the study. An example provided by one firm under joint venture is India. “You cannot enter the market without being in some sort of joint agreement or venture with a national of the country.” Hence, even though a firm may find it economically feasible to export the product due to low transportation costs and the cost advantage of being centrally located,
the firm may have to participate in a joint venture in order to secure market share in the Indian market.

**Contractual Agreements and Licensing**

Given the limited number of multi-national companies that responded to the survey, Contractual Agreements/Licensing and Foreign Direct Investment were very close in terms of the frequency that each of the factors were indicated as influential in the firms’ decisions. Following is a breakdown of the responses for the two categories.

Two out of the twenty-four survey respondents indicated “High level of product uniqueness” as a factor that most affected their choice of entry mode, while 2 out of the 24 respondents indicated “Competitive structure of the target market” as a factor that most affected their choice of entry mode. The following three factors each had a frequency response of 1 out of 24 respondents: 1) “Experience in international markets,” 2) “Cost and availability of resources in the target market,” and 3) “Size and growth of the target market.”

**FDI**

Two out of the twenty-four survey respondents indicated “Availability of capital” as a factor that most affected their choice of entry mode; 2 out of the 24 survey respondents indicated “Transportation and handling costs” as a factor that most affected their choice of Foreign Direct Investment; and 2 out of the 24 survey respondents indicated “Size and growth of the target market.” The following four factors each had a frequency response of 1 out of 24 respondents: 1) “Certainty of demand in the target market,” 2) “Cost and availability of Resources in the target market,” 3) “Competitive structure of the target market,” and 4) “Expected incumbent reaction to entry.”
Table 5 illustrates the response frequencies for each of the market entry modes included in the survey, in percentage terms.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Export Entry</th>
<th>Licensing/Contractual Agreement</th>
<th>Joint Venture</th>
<th>FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Availability of Capital</td>
<td>2.90</td>
<td>0.00</td>
<td>0.00</td>
<td>20.00</td>
</tr>
<tr>
<td>Experience in International Markets</td>
<td>6.90</td>
<td>7.10</td>
<td>19.00</td>
<td>0.00</td>
</tr>
<tr>
<td>Certainty of Demand in Target Market</td>
<td>17.60</td>
<td>14.30</td>
<td>14.30</td>
<td>10.00</td>
</tr>
<tr>
<td>Cost and Availability of Resources in Target Market</td>
<td>7.80</td>
<td>14.30</td>
<td>4.80</td>
<td>10.00</td>
</tr>
<tr>
<td>Transportation and Handling Costs</td>
<td>8.80</td>
<td>7.10</td>
<td>4.80</td>
<td>20.00</td>
</tr>
<tr>
<td>High Level of Product Differentiation</td>
<td>10.80</td>
<td>14.30</td>
<td>14.30</td>
<td>0.00</td>
</tr>
<tr>
<td>Trade Barriers (tariff and non-tariff)</td>
<td>9.80</td>
<td>0.00</td>
<td>23.80</td>
<td>0.00</td>
</tr>
<tr>
<td>Competitive Structure of Target Market</td>
<td>12.70</td>
<td>14.30</td>
<td>9.50</td>
<td>10.00</td>
</tr>
<tr>
<td>Size and Growth of Target Market</td>
<td>14.70</td>
<td>14.30</td>
<td>4.80</td>
<td>20.00</td>
</tr>
<tr>
<td>Expected Incumbent Reaction to Entry</td>
<td>7.80</td>
<td>14.30</td>
<td>4.80</td>
<td>10.00</td>
</tr>
<tr>
<td>Total</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Survey Questions: 7-11

Questions 7 through 11 in the survey specifically targeted factors from the literature review that were focused on individual entry modes. The response variables to these questions were rated on semantic differential scales. This system allowed the use of a logistic regression model for the data analysis. The Aitchison-Silvey Model (Aitchison and Silvey 1957) is a multiple logistic regression which is used to rank subjective response variables that have been given number values on a scale in which there is a sense direction
to the values. For example, in the survey used for this paper, the semantic differential scale which is utilized to rate the various response variables ranges from “Very Important” to “Not Important” where the values have a decreasing degree of importance and assume the values of “1” to “6” (Table 6).

Table 6. Aggregate Data: Question #7.

<table>
<thead>
<tr>
<th>Response Variables</th>
<th>Very Important</th>
<th>Not Important</th>
</tr>
</thead>
<tbody>
<tr>
<td>a Centralize production to decrease per unit costs</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>b Subsidiary located in target market</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>c Desire to maintain flexibility</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>d Difficult to access and establish a foreign distribution system</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>e Market otherwise impenetrable due to legal or institutional barriers</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>f Keep technology internal to the firm</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
<tr>
<td>g Other: ________________</td>
<td>1 2 3 4 5</td>
<td>6</td>
</tr>
</tbody>
</table>

The Aitchison-Silvey Model finds the cumulative probabilities for each response variable, based on the ratings provided by the survey respondents, and then calculates the parameter estimates for each response variable from cumulative probabilities analyzed by the model. The response variables are then ranked based on these parameter estimates. In this case, the rankings provide a list of the factors which most affect the firms’ decision to use export as an entry strategy. For the questions where the data received from the survey respondents were not ample enough to conduct a regression, a simple informal analysis was used in which the data were converted to means and frequencies.
Exporting as an Entry Strategy

Survey Question #7: If Exporting was used as an entry strategy, how important were the following factors in your decision?

The firms that export were asked to rate six factors on a scale from one to six in terms of their importance to the choice of export as an entry strategy. One signified “Very Important,” and six signified “Unimportant” (Table 6). Table 7 shows the aggregate level of importance the companies gave to each factor.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean Rating of Factors</th>
<th>Cumulative Probability Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>Difficult to access and establish a foreign distribution system.</td>
<td>2.63</td>
<td>0.8231</td>
</tr>
<tr>
<td>Desire to maintain flexibility</td>
<td>2.65</td>
<td>0.8905</td>
</tr>
<tr>
<td>Centralize production to decrease per unit costs.</td>
<td>2.91</td>
<td>0.5467</td>
</tr>
<tr>
<td>Market otherwise impenetrable due to legal or institutional barriers</td>
<td>3.32</td>
<td>0.5006</td>
</tr>
<tr>
<td>Keep technology internal to the firm.</td>
<td>3.56</td>
<td>0.0000</td>
</tr>
</tbody>
</table>

The first column shows the mean scores of the ratings provided by the survey respondents. Since a score of “1” indicates “Very Important,” the factors with the lowest mean are scored the highest. The factors in the second column are the output of the Aitchison-Silvey regression model run in SAS, where the factors with the highest scores are ranked first. The difference between ranking the factors using their mean scores and regressing the factors with the logistic model is that mean scores do not take into
consideration the variation that may be present in the data set whereas the Aitchison-Silvey Model does.

The only difference between the two ratings was in the first two response variables. Based on the cumulative probabilities generated by the Aitchison-Silvey Model, “Desire to Maintain Flexibility” was the number one reason affecting firms’ choice of export entry, while the second most important factor affecting the firms’ decision was “Difficult to access and establish a foreign distribution system.” Based on the average ratings of the response variables, the first two factors were ranked just the opposite, though the difference between the scores was minimal.

Both of the rating systems positioned “Centralize production to decrease per unit costs” as third, followed in order by “Market otherwise impenetrable due to legal or institutional barriers” and “Keep technology internal to the firm.” Having a subsidiary located in the target market scored a distant sixth, indicating that the majority of the export decisions made by the firms in the survey sample were not based on Intra-Firm Trade.

When adding comments on the factors that affected their decisions, one firm reported that it chose exporting for the “use of the contacts of foreign distributors” while another firm indicated that it chose export entry due to “existing overseas contacts.” Given that it can be difficult to enter a market without a network, these comments correlate with the difficulty of accessing and establishing a foreign distribution system, which was ranked as a leading factor affecting firms decisions to use export entry. Another firm stated that the “political climate” in countries influenced the firm’s choice to use export entry as the preferred entry mode (“i.e., the Middle East - a political hotbed”), supporting the use of
export entry as a means of maintaining flexibility within a market which was also rated as a leading factor influencing firms’ choice of export entry.

The respondents were asked to express any other variables that affected the decision to use export entry that were not included in the original list of response variables. One firm wrote, “If you don’t have experience in a market, you’d sooner export than invest.” This statement does not necessarily imply that firms use export entry if they lack international experience but reaffirms that, in a new market, export entry is used as an exploratory tool. Another firm included that it chose export entry due, in part, to “assistance through the State Department of Agriculture.” The U.S. government promotes the export of agricultural products and, therefore, plays a role in firms’ choice of this entry mode over the others.

The same question as number seven was asked with regard to joint ventures, FDI, and contractual agreements/licensing. The survey respondents were provided a list of factors and were asked to rate each factor from one to six in terms of its importance to the firms’ decision to use the various entry modes to enter their target foreign market. With this information, simple informal analysis, which allowed the factors to be ranked according to the mean scores of the ratings provided by the survey respondents, was conducted. Due to limited data, regression was not conducted on these sections.

**Joint Venture as Entry Strategy**

Survey Question #8: If a Joint Venture was used as an entry strategy, how important were the following factors in your decision?

The factors in Table 8 were rated as the most influential in the firms’ choice of joint venture as the preferred entry mode. Overwhelmingly, the top ranking factor was
“Control over production of the product” as it was given a rating of “1” by all of the survey respondents. This factor was followed by “Market otherwise impenetrable due to legal or institutional barriers” and “Control over distribution of the product.” These three variables correspond closely with the results expected from the literature review. Depending on whether the parent firm is a majority or minority owner, a joint venture will render varying levels of increased control over the production and distribution of the product. Joint ventures are also used to circumvent barriers that otherwise keep the firm out of the market. One survey respondent wrote in, for example, that “India can’t be entered by other means than JV or FDI.”

These three leading factors are followed in importance by “Maintain quality of the product,” once again an issue of control, and “Proximity to customers and suppliers.” The scores of the third and fourth factors tied at a mean value of 1.67. However, “Control over distribution of product” (#3) had a higher frequency of “1” ratings; therefore, it was ranked over “Maintain quality of the product” (#4).

<table>
<thead>
<tr>
<th>Table 8. Mean Ratings: Joint Venture Factors.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Factor</td>
</tr>
<tr>
<td>1. Control over production of the product</td>
</tr>
<tr>
<td>2. Market otherwise impenetrable due to legal or institutional barriers</td>
</tr>
<tr>
<td>3. Control over distribution of the product</td>
</tr>
<tr>
<td>4. Proximity to the customers and suppliers</td>
</tr>
<tr>
<td>5. Maintain quality of the product</td>
</tr>
</tbody>
</table>

When asked to comment on any other factors which had influenced their choice to use a joint venture as the entry strategy, one firm noted that the “strength of the joint
venture partner” attracted them to the option. According to the survey respondent, its joint venture partner has a “very powerful name worldwide,” a strength which attracted the U.S. firm to its JV partner. Another firm wrote that the company chose to use a joint venture because of the “amount of business” in the market. This choice signifies that a company will switch to a higher commitment entry mode in response to increased security of profit. One of the participants in the in-depth interviews added, “If the company really wants to develop market share, they will have to go beyond exporting.” The next entry modes along the spectrum are non-asset based contractual agreements and then joint ventures.

**Foreign Direct Investment as an Entry Strategy**

Survey Question #9: If Foreign Direct Investment was used as an entry strategy, how important were the following factors in your decision?

The following factors listed in Table 9 were rated by the survey respondents as the most important variables in the companies’ choice of FDI as an entry strategy.

<table>
<thead>
<tr>
<th>Table 9. Mean Ratings: Foreign Direct Investment Factors.</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Factor</strong></td>
</tr>
<tr>
<td>1. Maintain quality of the product</td>
</tr>
<tr>
<td>2. Proximity to the customers and suppliers</td>
</tr>
<tr>
<td>3. Control over production of the product</td>
</tr>
<tr>
<td>4. Keep technology internal to the firm</td>
</tr>
<tr>
<td>5. Control over distribution of the product</td>
</tr>
</tbody>
</table>

Again, there was an overwhelming first in this list of factors. “Maintain quality of the product was rated “1” by all of the survey respondents, strongly indicating that firms invest directly in the target market in order to secure control over the product. As evidenced in Table 9, “Proximity to customers and suppliers” ranked second in the list of
factors, followed by “Control over production of the product.” In the fourth factor, the theory of Ning and Reed (1996), and Helpman and Krugman (1985) was once again supported as firms rated the protection of technology as an important factor in their choice of entry mode.

General Factors

The last question asked the respondents to rate 12 factors that were cited less frequently, and in more general terms, in the study’s literature review. The factors were rated on the same scale ranging from one to six. This time, however, the factors were rated with respect to the firms’ entry mode decisions, regardless of the type of entry strategy that they ultimately selected. Therefore, the results tell us how important a role the factors played in general, rather than specifically referring to one type of entry mode.

Table 10 shows the mean scores of the ratings provided by the survey respondents. The calculations are based on the international executives’ perceived level of importance of each factor. Table 11 shows the rating of the factors when using the Aitchison-Silvey cumulative probabilities.

Table 10. Mean Ratings: Additional Factors Affecting Firms’ Entry Mode Decisions.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Mean Rating of Factors</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Knowledge of the target market</td>
<td>1.87</td>
</tr>
<tr>
<td>2. Legal and cultural differences between domestic and target markets</td>
<td>2.53</td>
</tr>
<tr>
<td>3. Well-known brand name in the domestic market</td>
<td>2.79</td>
</tr>
<tr>
<td>4. Prices of substitute products in the target market.</td>
<td>2.87</td>
</tr>
<tr>
<td>5. Company diversification</td>
<td>3.31</td>
</tr>
<tr>
<td>6. Cost of failure in the target market</td>
<td>3.60</td>
</tr>
</tbody>
</table>
Table 11. Aitchison-Silvey Model: Logistic Regression Values of Factors Affecting Firms’ Entry Mode Decisions.

<table>
<thead>
<tr>
<th>Factor</th>
<th>Cumulative Probability Coefficient</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Knowledge of the target market</td>
<td>1.67</td>
</tr>
<tr>
<td>2. Legal and cultural differences between domestic and target markets</td>
<td>0.85</td>
</tr>
<tr>
<td>3. Prices of substitute products in the target market</td>
<td>0.80</td>
</tr>
<tr>
<td>4. Well-known brand name in the domestic market</td>
<td>0.41</td>
</tr>
<tr>
<td>5. Cost of failure in the target market</td>
<td>0.11</td>
</tr>
<tr>
<td>6. Company Diversification</td>
<td>0.00</td>
</tr>
</tbody>
</table>

Between the two analysis, the “Prices of substitute products in the target market” and “Well known brand name in the domestic market” are in opposite positions in terms of importance. The same situation occurred between the fifth and sixth factors, “Cost of failure in the target market” and “Company Diversification.”

In-Depth Interviews

In order to penetrate more of the thought process behind firms’ international market entry decisions, in-depth personal interviews were conducted with international sales and marketing managers of two multi-national food processing firms. Due to the difficulty we had accessing top-level managers in multi-national companies, interviews were also conducted with three international market development consultants who have worked extensively with food processing firms entering foreign value-added food markets. The consultants were interviewed because they had worked extensively with a number of firms going through the international market entry process. Consequently, they understand not
only the decision making process of the firms as a body, but also the factors that affect the firms’ ultimate choice of entry mode.

The interview results have been combined by topic. All of the statements in this section of the paper are quoted directly from the survey respondents. Although the companies are to remain anonymous, the names of the consultants are available by request. Although the interviews were partially guided by an initial set of questions, each of the respondents were free to add any information they felt relevant.

Size and Experience

It was commonly expressed in the interviews that size and experience of the firm are two of the most influential factors on firms’ choice of entry mode. Lack of size and experience is a constraint to firms, limiting their available choices of entry modes. "As experience and knowledge increase, a firm's portfolio of strategies increases." Small companies are less likely to know the “language of international business,” which includes factors such as foreign language skills, documentation, transportation and logistics, and knowledge about the foreign buyer’s market. Hence, these firms are subject to constraints that large firms do not have.

Large companies are not only subject to fewer constraints, but also have the breadth to exploit opportunities that small companies cannot. “Big companies may have a lock on supply. They also have enough capital to do large educational programs. If people in the target market don’t know about the product, the large companies can build the market from zero and convince people that the product is what they need. Small companies have to come in after the fact.”
Size also affects how firms internationalize. “Smaller companies grow in stages. For larger companies, it can be more of a defensive move.” The examples given of international entry as a defensive strategy were joint ventures, which can be implemented to "fend off possible acquisition." Another respondent added that it is "hard to compare the transitions of large firms to the transitions of small firms. The small firms can’t compete with the Nestles and Kelloggs of the world. For large companies, an entry mode is part of a global strategy.”

According to one international export development consultant, there are three reasons that cause firms to initially enter an international market by exporting their product.

There are those firms that have basically “fallen into exporting” and did not strategically plan it. Their product became an international commodity by default because it was of interest to an overseas customer. This interest is typically caused by a high degree of quality or uniqueness in the product which could not be sourced elsewhere. The fact that these firms have differentiated their product made them a target for international activity. In this group there are also those firms that are interested in diversifying their competitive position but that have no international practice and no target market. "People get involved in export who have absolutely no experience. They don't even have a target in mind. Often they just put their name in a trade journal.”

The second type of firm has administration that commits to export activity after the firm lost money by not being involved internationally. "The only reason many firms are overseas is because someone in administration made the commitment after someone else
had made a mistake. They realized that they couldn't afford not to commit resources
towards international sales."

The third type of firm is the company that pushes to increase margins and sales. These firms strategically plan their initial entry into the international arena. These firms will typically use export entry to gain experience and to probe markets for further investment potential.

**Internationalization Process**

The participants in the interviews also shared a common belief that firms are most likely to progress along the spectrum of entry strategies when there is a problem with their current means of market entry. According to the international marketing manager of one of the large food processing firms, the main reason firms change entry modes is to improve a situation that is no longer optimum. “For firms that have started out exporting, a new strategy is usually developed in response to a problem. The company is forced to look at other options due to some difficulty it is having with its current entry mode.” Another respondent commented that the firms that did not strategically plan to export were less likely to progress to the use of another entry mode “until they run into a problem or there is some incentive to go overseas.” It takes these firms longer to move to the next step of the entry mode chain “because they hadn't thought it through and pursued international activity. Firms that start out exporting will continue to do so until they run into reasons to look for other means of servicing the market.” He also added that firms will continue to export because they do not seek out or are not aware of the other opportunities available. “Sometimes, firms just assume that they couldn't do more than export. They have a lack of knowledge about the target market and about international marketing as a whole.”
All three consultants claimed that firms often change entry modes due to a change in government regulations. One of the respondents provided two examples specific to wheat-based products:

“Canada used to have a rule that wheat-based products couldn't be imported from the U.S., so the company would have to actually move an office to Canada in order to get their product in. Europe wouldn’t let enriched flour be imported, so a U.S. firm would have to change the formulation of the product or move overseas.”

A second respondent stated,

“In essence then, one major factor in the choice of an entry mode are the legal and governmental regulations of the country. What entry modes does it allow, and what stipulations does the government impose on a company's entrance into the market?”

To support the claim that the factors affecting firms’ choice of entry mode are often firm-specific, he gave India as an example.

“You cannot enter the market without being in some sort of joint agreement or venture with a national of the country. So even though a firm may find it economically feasible to export the product, the firm may have to form a joint venture in order to secure market share in the Indian market.”

The third consultant claimed that “most people move out of export because of a change in regulations.” One of the respondents also added that advancement beyond exporting “depends on commitment at the executive level which is often a function of their level of experience or even a change in management.”

**International Entry Modes**

**Export**

This section covers the factors that the respondents gave as factors affecting firms’ choice of export entry. Transportation and handling costs were ranked by three of the respondents as one of the most important factors affecting the use of export entry “because they can be a barrier to trade.” If the percentage of transportation costs with respect to
total costs is low, the firm will export. “As the percentage of transportation costs with respect to total costs gets higher, the more likely the firm is to go overseas” adding, however, that “if margins are high, costs aren’t as important.” Another consultant reiterated the same reasoning.

“If the product has a good mark-up in the foreign market, then the cost of transportation is not as important. The price of the product in the target market will determine whether or not it is economically feasible to export the product from a centrally-located facility. If the margins are small, then transportation costs become much more important.”

The respondent added that transportation and handling costs are especially important when dealing with food products. “The perishability of food products makes them especially susceptible to costs. When a product has a shorter shelf life, the transportation and handling costs go up.” The third respondent that felt transportation and handling costs are important claimed that licensing a product’s name can be used when “product shipping costs are high in relation to the value of the product.” He claimed that licensing allows the firm to produce its product (via the licensee) in the target market without directly investing overseas.

Two respondents also felt that input costs are critical to where the firm should produce.

“Firms will produce from where they can most efficiently source the input. So, if it is important to have high quality durum from the upper Midwest, the firm will probably export from that location. However, if it is cheaper to source the basic inputs from the target country, the firm will move and import any special ingredients or inputs from the home market.”

Trade barriers were considered primary factors affecting firms’ choice of entry mode by two of the five respondents. “Rather than having a legal restriction on the
product, countries will simply impose a high tariff to prevent imports of the products.”

Tariffs can block a firm from exporting, forcing the company to find another entry mode.

“Tariffs are really important because it doesn't matter if the demand is certain or if
the country is promising in terms of size and growth, nor does it matter how unique
your product is. If you can't get into the market due to some sort of trade barrier,
than exporting is not even an option.”

One firm commented that import tariffs are not the most difficult barrier. “It’s the
non-tariff barriers that cause us to spend money and effort to meet demands.” Another
firm added that “certifications and meeting cultural requirements” are often the most
difficult barriers. “We are sometimes asked to provide proprietary information in order to
sell the product.”

**Contractual Agreements and Licensing**

According to the respondents, the two primary factors that motivate the use of co-
packing agreements are cost efficiencies and “to circumvent trade barriers, such as legal or
governmental regulations.” One of the international marketing managers claimed that his
firm used co-packing agreements to “ship the base product to the target market for retail
packaging . . . because it's cheaper to ship the bulk product.” Another example given was
one of the respondent’s cake mixes which the company arranged to have prepared in the
target country. “We buy the sugar and flour, and then ship in the secret ingredients. We
make the mixes in [the target market] and package them there. It’s less expensive, and
there are less taxes and import duties.”

Licensing is used to circumvent legal or governmental regulations, as well as
tariffs. The same company that uses a co-packing agreement for its cake mixes to pay less
import duties and shipping costs uses licensing to avoid paying the tariffs and “when
prohibited from exporting because of regulations in that country.” In this case, the firm licenses the name of the cake mix, rather than moving into the country.

The international marketing manager of another large U.S. food processing firm claimed that the primary reason the company uses licensing is because there is “very little investment on the part of the parent firm.” The firm licensing the product receives royalties which, according to the international executive, is easy “profit on the product you supply.” According to the international marketing manager, with licensing, a firm “can produce overseas without FDI investment.”

One consultant pointed out, however, that licensing may be too exposing for the firm. Although the factors previously discussed may warrant the use of a licensing agreement, the technology of the product may require that the firm choose an alternative entry strategy. “A larger company may be afraid of the technology being stolen” and, therefore, might want to keep technology internal to the firm by means of another entry mode. A second consultant concurred.

“Licensing is not used as frequently as export, joint ventures, or FDI because the firm loses control of technology. Small firms may have a hard time collecting royalties and payments. With licensing, it is also hard to track down how much is sold.”

Joint Venture

One MNE that participated in the interviews claimed that the firm chose to use joint ventures “to share risk and financial burden” and “to tie up that company exclusively. That way we know they’ll only work with us, and we have an exclusive bond.” This
assertion is congruent with the literature review that joint ventures are utilized to secure access to international assets embedded in a foreign firm.

The second MNE said that the main reason the enterprise used a joint venture was to secure access to the target market. “Rather than create a demand for your product, or if you have a product with no uniqueness, joint venture with someone who already has an entry.” This firm also felt that FDI was too risky for the company, despite its size and capacity. “We’re too conservative. It’s very risky. We’d rather joint venture instead with a partner.” This firm pointed out, however, that joint ventures are risky because you can “lose control of your brands.”

Foreign Direct Investment

According to one MNE, a firm’s progress from JV entry to FDI is “usually due to price competition or a change in regulations.” The firm also said, “If a firm wants to increase capacity,” it must directly invest in the market and also if it is “cheaper to do it in the country,” adding that this case is true when “the dollar is strong and selling from America is worse than sourcing from another country.” Finally, the firm felt that FDI is to be used to “enter the market early and establish a brand before competitors come.”

The international sales manager also felt that a primary factor in the decision to directly invest in a country is the commitment of the executives in charge. He claimed that the company started a flour mill in Venezuela because several of its employees were personally interested in doing business there. “The manager had a vested interest in international business. He was proactive.” The company is now one of the ten largest agricultural firms in Venezuela and feel that “it’s not as important what country but the level of commitment of the people that will be working there.” Another respondent
expressed the same thought: “The initial involvement and eventual success in international markets of many firms often depends on the commitment to international sales at the executive level.”

The second MNE felt that the most significant factors affecting the choice of FDI is when the firm’s goal is market control, when the price of sourcing raw materials is cheaper in the target market, or when the parent firm “can’t afford to be with a partner due to the JV partner being a conflict of interest with firm’s global strategy.”

One of the consultants asserted that the most important factors influencing firms’ selection of FDI as their entry mode are: 1) cost efficiencies of production in the U.S. versus production overseas, 2) whether the firm has distribution and manufacturing expertise which might warrant a joint venture, 3) availability of capital, and 4) growth of the target market. “Demand for food products is growing less than five percent in the U.S., yet there is double-digit growth rates overseas.”

According to another consultant, “Companies will go to the target market to get closer to buyers or because consumers prefer local processing. A large buyer could require that the supplying firm manufacture the product in the target country.” She added that “firms in the food processing sector also go overseas to have control, and to be able to source raw materials cheaper and more efficiently.”

**Difference Between Factors Affecting Food and Non-Food Processing Firms’ Strategies**

There was a consensus among all five of the interview participants that several factors affect food processing firms’ choices of market entry modes differently than they affect firms in other industries. According to one consultant, the difference between strategies for food products and non-food products is “the consistent demand for food and
the government involvement surrounding the trade of food products. There is always a
demand for food. Furthermore, as income goes up and economies improve, the demand
for food goes up, both in quality and volume.”

Another consultant agreed that government assistance programs are influential
factors in firms’ choice of entry mode.

“Food products are highly promoted relative to other industries that don't have the
same promotion. Firms in the food industry have an advantage in terms of
international sales. The government subsidizes international agricultural activities
and implements programs designed to provide resources and training. The USDA,
in conjunction with organizations such as MIATCO, are promoting agricultural
products in a way unparalleled by most other industries. Other examples are the
National Pork Producers Council and the United Soybean Board. There are trade
shows in the food industry on a regular basis. Participation in these trade shows
can be partially subsidized by the participating company's state department of
agriculture.”

The consultant added that “both large and small companies can take advantage of
these programs, including companies as small as a first time exporter and as large as a firm
such as Pillsbury.”

Managers concurred that companies in the food products industry have special
concerns. For example, the international sales manager of one firm claimed that the
perishability of food products is a factor specific to the industry. “Since you can’t predict
the sales, you’re more sensitive to up front investment.” Another MNE manager claimed
that strategies in the food sector are affected differently “because of people’s eating
habits.” A consultant claimed that “food products are tied to the culture of the country and
their tastes.”
Product Differentiation

Several companies provided similar explanations of product differentiation. “A well-known brand name and ‘uniqueness’ are not equal. Large firms can use their brand name to enhance their products' marketability in foreign markets. Small firms use their products' uniqueness to gain market share.” Another respondent explained that “small firms often have a unique product which they sell overseas in limited quantities. This uniqueness drives the firm into the international market in the first place. Large firms sell more volume and are often more generic than smaller firms.”

Large firms differentiate their products by their brand name. “They may not be selling green cookies, but they have a brand name that has become recognized outside of the United States. In the marketplace, the product may be similar to others, but the brand name sets it apart from the rest.” According to another MNE, “If a company has a recognizable brand name, they have less need to look at different options.”
CHAPTER 5

SUMMARY AND SUGGESTIONS FOR FUTURE STUDY

The key determinants of firms’ choice entry modes for penetrating international markets were investigated in this study. The primary determinants of entry mode selection were first analyzed by means of a survey sent to companies in the value-added wheat industry that were involved in international sales of their products. Several sets of the data aggregated from the survey were tested statistically. The survey was followed up with in-depth personal interviews with companies in the value-added wheat industry as well as consultants that helped companies decided on the best form of international market entry.

Although interesting and based purely on past international activity of food processing firms in the value-added wheat industry, the results of this study can be called into question due to the low response rate for the survey. Interviewees declined to respond to the survey for several reasons. First, the surveys were directed specifically to the International Sales Managers of the companies, who are typically among the busiest administrators in a company. Upon calling the companies that did not respond, many of the managers claimed that they had been too busy to fill out the survey or that they had not made it a priority. Second, many of the companies felt that the material being requested was proprietary. Many companies would not fill it out for this reason. Also, several of the surveys that we did receive included questions that were left blank because the companies would not give out the information.

Most of the results from the data analysis were consistent with those results expected from the literature review. However, it became evident that each firm has a
unique set of dynamics within which it must function. Hence, each firm is affected differently by the various factors.

The two entry modes that were selected most by the survey respondents were export entry and FDI. The predominance of export entry was caused primarily by the type of companies that responded to the survey. Not only are there fewer large multi-national firms to target in the value-added wheat industry, these firms were also the least apt to answer the questions.

All of the joint ventures put into effect by the survey respondents were implemented in succession to export entry. This supports the theory of internationalization that firms will move progressively from low commitment entry modes to higher risk/higher-commitment entry modes over time.

All of the FDI ventures reported in the survey were executed as initial entry strategies in new markets by large companies that had more years of experience in international ventures; they were not entry modes used markets in response to increased commitment over time. This finding supports the theory that the use of higher risk and higher-commitment entry modes increases with a firm’s level of international experience.

It was commonly expressed among the participants in the in-depth interviews that size and experience of the firm are two of the most influential factors on firms’ choice of international entry mode. The participants in the interviews (all multi-national firms and international marketing consultants) shared a common belief that firms are most likely to progress along the spectrum of entry strategies when there is a problem with their current means of market entry.
Firms that had spent higher ratios of their gross revenue on R & D were all exporting. These findings supported the theory that firms with high levels of investment in product differentiation will choose export entry over other modes of market entry in order to keep technology internal to the firm. The study also shows that one of the leading factors affecting firms’ choice of FDI as an entry mode is the cost of transportation and handling costs. This supports the theory asserted by Helpman and Krugman (1985) that firms will export to protect their technology until it becomes more cost advantageous to locate production facilities in the foreign market.

It was clearly indicated in the data results that firms begin to export in response to growing markets for their products outside the United States market and that export entry is utilized to explore a market for further investment potential. Export entry was also listed as a means to enter a market when it is difficult to access and establish a foreign distribution system, and when firms want to maintain flexibility in a market (i.e., abandon the market easily if they wish).

Data show that joint ventures are implemented in order to control the production and distribution of the firm’s product. The data also conclude that joint ventures are used when the market is otherwise impenetrable due to legal or institutional barriers. These three variables corresponds closely with the literature review.

The research results show that FDI is used to maintain control over the quality and production of the product, and to gain proximity to the market. These factors were closely followed by firms’ desire to keep technology internal, backing up the theory listed earlier that firms will export to keep technology internal until they can justify entering the market directly due to expenditure savings.
Recommendations for future study include focusing purely on multi-national firms that have implemented various entry modes and that have extensive experience, although these are the most difficult companies from which to obtain information. Another recommendation would be to focus on fewer factors and fewer entry modes in order to obtain a more concentrated study. Administering a study on only one or two entry modes, with a more extensive number of companies’ data, would allow an in-depth empirical study of firms’ behavior.
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