Factors Effecting Small and Medium Enterprises, Selection of Market Entry Mode

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Abstract

Development in infrastructure limits the communication gap, speedy travel and low cost tariff barriers as well other drivers of globalization have made overseas markets easier to get small firms and gave more opportunities to SME’s internationalize. The market entry mode choice or selections have strong effect the success or failure of the company. For instance an insufficient or wrong entry mode selection can decrease opportunities and limit important choice for the firm and could lead to high financial loss as well as lose control on overseas market. The purpose of research study is to provide a deep and better understanding of the factors those effecting SME’s selection of market entry mode. Research question how can the influence of internal and external factors on the selection of market entry mode. A frame of reference led to the building of summary which in turn became the basis for data collection. Two qualitative case studies for Pakistani SME’s namely socks knitter Pakistan and RK International were undertaken. The main findings shows the clear link between the theories claim to be internal and external factors influencing market entry mode choice between SME’s.

Key words: Small and medium enterprises, market entry mode, internationalization.
Acknowledgement

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<td>SME,S</td>
<td>Small and medium enterprises</td>
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<td>Micro small and medium enterprises</td>
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<td>GDP</td>
<td>Gross domestic product</td>
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<td>MNC,S</td>
<td>Multinational Corporations</td>
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<td>MEM</td>
<td>Market entry mode</td>
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CHAPTER 1

1.0 INTRODUCTION

According to Bender and Fish (2000) the world is in an era of globalization, and companies are continuously affected by competition around the globe. An International Expansion process is necessary because, from a national view, economic separation from the world market has become impossible. Failure to participate in the international market assures declining economic activity of a nation (Czinkota & Ronkainen 2004).

We have moved a step away from the era in which international business across borders was the expensive privilege of only multinational companies. Small and medium enterprises are a major source of economic growth and job creation in developing as well as in developed countries (OECD 2006 & APEC 2006). More small and medium enterprises are taking part in internationalization after getting domestic market experience and sound financial resources. A research study shows that world trade has been risen from year 2000 to 2005, $ 6.2 to $9 trillion (Cinzkota & Ronkainen 2007). The world trade has outperformed the growth level but unfortunately small and medium enterprises in Pakistan have had difficulties integrating into the world economy, as evidenced by the fall in exports of 9.42 percent in February 2010 (Hussain 2003).

The Pakistan country assistance strategy (2003-2005) shows that Pakistani export performance was equivalent to low middle income countries because of businesses not being much involved in international trade. “Doing Business” a magazine reports that Pakistan ranks above South Asian average on composite index of tariffs, time, procedures and trading cost across boundaries. Pakistani trade level remains low and internationalization of SME’s hampered Pakistan European community strategy (2007-2013, P.8). In Pakistan small and medium enterprises are not well known business sector because of the government negligence. Now the Ministry of industries, production and special initiative established a small and medium enterprises development authority (SEMEDA) in 2007. However, SME’s developing policy in 2007 and development of this sector in Pakistan has been a step behind in internationalization. The government has taken several measures both at national and international level to encourage SME’s, because it is the backbone of the economy. (Bashir Ahmed Fida 2008).

According to Zhang (2003) ‘The selection of an international market entry mode is perceived as a core issue in the international business as well as the critical decision for SME’s’, because it affects future decisions and performance in overseas market. There are many factors which affect a firm’s decision of entry mode. Influential factors can be different in each case, or same for both cases. The degree of influence can be varying between cases. As a result, SME’s use different entry modes to adapt to specific situations in their international expansion process. SME’s can choose from six entry mode strategies: exporting, licensing, franchising, Green field, joint ventures and wholly owned subsidiaries.

1 Entry mode is an institutional arrangement that creates the possibility for a firm’s product, technology, human skills, management and other sources to enter into an overseas country.
In Pakistan small and medium enterprises are discriminated against by large firms. SMEs, due to their size, are less capable of carrying successful businesses. They do not have enough financial, managerial, technical and trained human skills to expand their business successfully. Due to limited domestic market size, increasing the competitiveness and pursuing sustainable prosperity forced small and medium enterprises to search for foreign market opportunities in world market. There are many reasons behind small and medium enterprises' expansion process. The major reason is that they were not fully aware of the target country market influential factors and choice of suitable foreign market entry mode before entering into a foreign market. Small firms were not much involved in international market expansion processes, because they did not have sufficient resources and knowledge about the foreign country's market factors, and how to expand globally (Hussain 2003).

1.1 PROBLEM STATEMENT

International expansion process of small and medium enterprises is beset by numerous problems in Pakistan. The international expansion process for small and medium enterprises involves limitations of financial, technological, management and information capacity to a much higher extent than multinational companies. Small and medium enterprises also face external obstacles in form of laws, rules and regulations (Hollenstein 2005). SMEs businesses in Pakistan are everyday confronted with numerous business decisions that possess international market expansion challenges.

Imran also carried out a research in 2009 on Pakistani international expansion process of SMEs and found out that one of the reasons why small firms are failing in international expansion process is a result of their poor decision making regarding choice of international entry mode strategies. According to him, many large companies in Pakistan have a bulk of resources, such as financial and technological, and have sufficient experience. They have multiple choices of international market entry mode strategies, but small companies, due to limited size and inadequate experience than what they could cope with. Hence, they are unable to meet up with their desired goals. Therefore, SMEs forced to go internationalization due to focus on niche market\(^2\), limited product life cycles, the limited size of their home or domestic market comparative to abroad. The Researcher argues however, that these firms face a severe dilemma should they try to go for international expansion. The author states that primary international market entry modes used by small businesses is exporting without extending the firm's resources. The Researcher also emphasizes that small firms often skip some or all of the international expansion stages as many of the companies must be international from the outset (Meyer & Gao 2006).

If a company selects a poor market entry mode of international market entry at the beginning stage of international expansion, it can become a threat for its future international market entries. However, there is no right international market entry mode that can be seen as a suitable choice (Hollensen 1998).

\(^2\) A “niche market” is the subset of the market on which the specific product is focusing. It defines the specific product features aimed at satisfying specific market needs.
The selection of international market entry mode is a critical decision, which demands a bulk of resources and planning. When making the decision of international market entry mode, a wide range of factors should be considered (Young 1989, Hamill 1989, Wheeler & Davies 1989).

Furthermore, Koch (2001) states all factors proposed to effect international market entry mode selection fall into three groups: internal, external and mixed.

The author pinpoints that a little or no research work made on the particular issues that Pakistani SMEs face influential factors effect of these influential internal/external factors on selection of market entry mode in internationalization.

The problem is therefore to investigate the internal and external factors affecting selection of international market entry mode strategies. The researcher makes additions: the size of the firm is of great importance to go international and to be successful, as the small and medium enterprises are not well prepared as the large companies to deal with the institutional distance between the target country or host country in which investment is to be made, and home country.

As the SMEs prospering their needs to be design and develop according to market entering strategies towards international expansion process. This way Pakistani SMEs could utilize the growing tanneries and maintain the consistency of foreign exchange along with major competing currencies like China, India (Hussain 2003). It is important for all small and medium enterprises to expand internationally to earn more profit (Knight 2002).

The selection of market entry mode is different from company to company and affected by numerous factors, both internal and external to the company (ibid). How a firm deals with the external factors, depends on internal factors while selecting international market entry mode (Root 1994).

It is of great importance for small and medium enterprises to find out what influential factors that was major in the modal choices of other companies. This is in order to improve the SMEs strategies and not make the mistakes other companies have done (Osland 2001, Taylor & Zou 2001).

Hollensen (1998) states that if a company in the initial stage of its market expansion makes poor selection of international market entry mode, it can become a threat for its future market entries and expansion process.

Factors affecting companies’ selection of entry mode can be divided into two groups: internal and external factors (Johansson & Vahlne 1977). Internal factors consist of determinants regarding the inside environment of the company, while the external are determined outside the environment of the company.

According to Hussain (2003) Pakistani small and medium enterprise firms have not enough knowledge about international market expansion and shy to enter the
international market. Only few SMEs were in the internationalization process. The author focused on Pakistani SMEs that are on finger tips operating in international market and also effect of influential factors (internal and external) on choice of market entry mode selection.

The author would explore the Pakistani small and medium enterprises Hosiery companies for future foreign expansion. Authors mainly focus on internal and external factors. Internal factors are the firm size, product, international experience, profit objective, Management Risk Attitude. External factors include environmental factors, foreign country market factors, Industry feasibility/ viability of MEM, Market growth rate, Image support requirement, Global management efficiency requirement, Popularity of individual MEMs in the overseas market and socio cultural factors. The problem is therefore to investigate how internal and external factors affecting selection of international market entry mode strategies.

1.2 RESEARCH OBJECTIVES
To investigate and critically assess impact of internal and external factors on small and medium enterprises on selection of international market entry mode strategies in Pakistan.

1.3 RESEARCH QUESTION
How can internal and external factors influence the selection of international market entry mode?

1.4 ORGANIZATION OF STUDY
The thesis is divided into six chapters and in first chapter introduction problem statement research objectives and research question are given.

Second chapter represents Methodology, the research approach, research strategy for empirical data collection, and how analysis to be done.

The third chapter contains Frame of Reference, theories related to the research topic, and will lead to the gathering of information, empirical data and data analysis.

Fourth chapter contains empirical data collected from investigated SMEs' (companies) information from Pakistan. Then the data in each case is presented according to research question.

Fifth chapter: Data analysis starts within case analysis, where empirical data is compared with theories, discussed by the researcher. The case analysis followed by the cross analysis where the results of two investigated SMEs compared against each other. Conclusion is drawn in chapter six with implication and future research directions.
FIGURE 1: ORGANIZATION OF THESIS CHAPTERS

Chapter 1: Setting
Chapter 2: Methodology
Chapter 3: Frame of reference work
Chapter 4: Empirical Data
Chapter 5: Data Analysis
Chapter 6: Conclusion
CHAPTER 2

2.0 LITERATURE REVIEW
In this chapter we have an overview of previous studies relevant to the research question presented. The literature related to research question regarding how internal and external factors can affect the selection of entry mode. The literature on internal and external factors and their influence on choice of market entry mode described. Therefore market entry modes in this chapter applied in SME, s. Finally, a summary of frame of reference is presented.

2.1 INTERNATIONAL MARKET ENTRY THEORY
The literature on the international market has been criticized as being an expressive and missing empirical research (Paliwoda 1999); the selection of international market entry mode in the literature is considered a major issue in the literature (Anderson, Gatignon 1986, Bradley 1991 & Wei 1994) and researched extensively. Generally, the literature of on the international expansion process of international market entry can be divided into two schools of thought, the stages theory and the contingency theory (Nair 1997 & Melin 1992). The stages theory views the international expansion of firms as a set process of chronological progress through stages of resource commitment (Nair 1997, Anderson 1993 & Peters 1994). On the other hand, the contingency theory focuses on strategies or choices for the various international market entry modes (Melin 1992, Kwon & Konopa 1992).

The thesis reviews the international expansion process model of the stages theory to explain how companies expand their operation in foreign markets so as to establish what stage of the international process Pakistani firms currently are at. The author reviewed two models from the contingency theory: the transaction cost model and the conceptual model of contingencies. These models permit for internal and external environment factors in the decision for international market entry mode.

2.2 THE TRANSACTION COST MODEL
The transaction cost model classifies the environmental factors that influence a company as internal and external factors. The internal factors are the company and product characteristics, while the external factors are the external foreign market characteristics (Root 1987, Anderson, Gatignon, 1987; Kwon & Konopa 1992).
This model points out that the risks confronted in the overseas market operation are moderated by the level of control achieved by the selection of an international market entry mode, which as a result affects the long-term return of the overseas investment. Risk is known here as the chances of loss arising from trade barriers, strength of competition and political instability. Return is explained as the long-term effectiveness and profit (Kwon, Konopa 1992, Wei 1994 & Nair 1997). The deficiency of this model is that it does not discover the effect of the home country environment on the overall effect of the trade-offs between risks and return.

2.3 THE CONCEPTUAL MODEL OF CONTINGENCIES

Stop ford (1972) and wells developed one of the first international market entry mode models. They argued that selection of market entry mode was contingent upon the firm's international experience and product diversification. Contingency theory explains that a firm that enters a international market should choose market entry mode based on firm, industry and country specific factors. For example, the entering company is less likely to make an acquisition if the rules governing FDI and other industry-specific regulations have been significantly liberalized (Bhaumik & Gelb 2005).

The conceptual model of contingencies include previous research on the international market entry mode in one comprehensive framework (Minor 1991 & Wei 1994) by...
adding environmental characteristics with competition in industry and the product/market contingencies. The company's experience and organizational strengths are also considered. The model is consolidated by the insertion of the company's strategic objectives. The model shows that a company's overall performance in the international venture is a consequence of the interaction of environmental, product, competition, and organizational factors, of goals and international market entry mode choices.

Figure 3: The conceptual model of contingencies
2.4 ECLECTIC THEORY MODEL

A model is developed to explore the influential factors of international expansion process developed from the manufacturing research. A model is developed based upon the tenets of Dunning’s (1980, 1988, 1990 & 1995) eclectic theory.

Dunning’s (1980, 1988, 1990 and 1995) eclectic theory is a transaction cost-based theory that explains the transfer, internationalization, and firm-specific ownership advantages. Eclectic theory suggests the importance of firm- and location-specific factors to explain
international operations. Firstly, Dunning (1980) states that specific organizational skills or technologies permit a firm a competitive advantage in the marketplace. Secondly, Dunning (1980) argues that country-specific factors are also important to be successful in the international expansion process. He further states that the characteristics of the market entered significantly influence a firm’s international expansion efforts. While originally intended to explain international investment, eclectic theory can be extended to explain how firms, either service or manufacturing, approach internationalization.

Dunning’s (1980) eclectic theory provides a parsimonious theoretical examination of the applicability of manufacturing influential factors to internationalization of the manufacturing. The model contains the firm-specific factors of firm size, competitive advantage and the location-specific factor of market characteristics to assess management attitudes towards international expansion process.

**Figure 4: Factors influencing internationalization process**

Researchers show that the probability of international expansion process increases with firm size (Aaby, Slater 1989, Keng, Jiuan 1989, Ali, Camp 1993, Erramilli, Rao 1993, & Katsikeas 1994). Resource theory is used to explain firm size relationship to internationalization (Aaby, Slater 1989, & Bonaccorsi 1992). Aaby and Slater (1989) argue that internationalization requires a great deal of resource commitment by the expanding firm. They further say that the larger a firm becomes, the greater its ability to well connect in export and larger firms appear to be better suited to absorb the risks connected with internationalization. However, resources must be viewed not only in terms of financial capital (Dunning 1980, 1995 & O’Farrell 1998).

Bonaccorsi (1992) studying Italian exporting manufacturers, found a positive relationship between the number of employees and their tendency to export within a firm. Thus, human capital decreases a firm’s risk of failure through the increased possibility of employing those with skills necessary to international expansion.
Further, research suggests that the relationship between firm size and management attitudes is supported in the manufacturing context. O’Farrell et al. (1998) found that, as the resources such as financial and human skills of a manufacturing company increased, its ability to absorb the risks connected with international expansion process increased.

**FIRM-SPECIFIC FACTOR: COMPETITIVE ADVANTAGES**

Wiedersheim-Paul et al (1978) argue that a firm’s competitive advantages influence management attitudes toward international expansion process. They suggest that when a manufacturer is conscious of the unique assets it possesses, it is more likely to search for extensive exploitation of its competitive advantage. ‘This is supported by other researchers (e.g. Bilkey 1978, Cavusgil 1979, Cooper, Kleinschmidt 1985, Edvardsson 1993 & Katsikeas 1994). For example, Bharadwaj (1993) differentiate between two categories of competitive advantage’.

(i) Unique resources
(ii) Distinctive skills

These advantages interpret directly into superior marketplace and financial performance for the firm. Having or possessing advantages over rivals in terms of unique resources and distinctive skills permits firms to exploit these advantages in the open market and get huge profits than would otherwise be attainable (Dunning 1980, 1995).

As same in the service sector, O’Farrell et al. (1996) argue that specialization and competitiveness lead to larger international expansion process. For example, Miller and Parkhe (1998) found that international expansion process was more pervasive of US banks into overseas markets if the firm determined that it could capitalize on their competitive advantages. If management itself is to have a transferable competitive advantage, it is more likely to have a positive disposition towards operating international market.

**LOCATION-SPECIFIC FACTOR**

**MARKET CHARACTERISTICS**

Research in the manufacturing sector indicates that market characteristics have an impact on management attitudes towards operating internationally (Alexandrides 1971 & Dunning 1980). Alexandrides (1971) found that manufacturing exporters perceived lower trade barriers to international expansion process. They have a propensity to more positive attitude toward international expansion. Market characteristics of concern to managers involve host government rules and regulations restraints on international market entry, limitation of foreign ownership, local content requirements and financial and fiscal controls (Czinkota, Ronkainen, 1990, Dunning 1980, Robock & Simmonds 1989). Numerous studies show the impact that these external barriers have on international trade (see Dichtl 1986, Dunning 1980, Kaynak, Kothari, 1984, Kedia, Chhokar 1986, Rabino 1980 & Yang 1992).
Lovelock and Yip (1996) indicate that host governments use import tariffs, non-tariff barriers, local content requirements, currency and capital flow restrictions, ownership restrictions and requirements on technology transfer in an attempt to control the degree of foreign competition in the manufacturing industry.

2.5 DEFINITION OF ENTRY MODE
According to Root (1994) ‘Companies enter into the international market by selecting different entry modes’. An entry mode is an institutional arrangement that creates the opportunity for the companies (technology products, human skills, management and other resources) to enter into the overseas country market.

2.6 TYPES OF ENTRY MODE
There are different kinds of entry mode when a company adopts before going into the international market.

(i) Export Entry Mode
Export mode of entry deals with importing or buying and exporting or selling physical goods or products from a domestic country market to a foreign country market.

(ii) Contractual Entry Mode
Contractual entry modes are long term non equity alliances between the home and host country company.

(iii) Investment Entry Mode
Investment entry modes are about acquiring ownership in a company that is situated in the target country. Root (1994, P.6-7) classified licensing and franchising as a contractual entry mode, joint venture and green field as an investment entry mode.

2.6.1 Export Entry Mode
The transfer of goods or services across the national borders: many companies start through export and then move to other market entry mode. (Kirbua & Benjamin, 2007). Direct export includes the use of agents, distributors, Government and overseas subsidiaries.

Merits of exporting when a company entering into the overseas country, can avail the facilities at the home country and transfer the goods and services to the other country. This way companies avoid the substantial cost which it incur to establish manufacturing facilities in the foreign country. Companies get an advantage from the economies of scale and from its worldwide sales volume.

That’s why exports enable the company to get an advantage from the experience, cost and location economies. Export does not require a substantial presence abroad. Common examples of export as entry mode are the Sony Television market, Matsushita video
cassette recording market and many Japanese companies in the United States auto market (Kirbua & Bejamin 2007).

Where exporting has merits and demerits export from home country may not be profitable if, low cost manufacturing facilities could be established in the host country. Secondly it becomes uneconomical if the transportation costs are high. However, this problem can be removed by manufacturing a bulk of products. At last, regularity authorities imposed the tariff barriers to which the company is exporting could make it risky (Kirbua & Benjamin 2007).

2.6.2 Contractual Entry Mode
In this mode of entry one company makes some form of agreement with another company to use some particular benefits. Two types of contractual entry modes are franchising and licensing (Yadong 1999).

(I) Licensing
There are two parties. One is licensor and the other is the licensee. The licensor gives permission to the licensee of the company to use their resources like technology trade mark, managerial skills etc. In return, the licensee has to pay a royalty fee or certain sum of to the licensor (Hill 2007).

The licensor is not liable to bear any cost in order to get their product in to the foreign country market. The licensee bears all the costs of introducing the product to the foreign country market (Dool & Lowe 2007).

The demerit is if the company licenses their specific assets they will lose their control on manufacturing and marketing in the overseas country market. It will fail to get the experience in the overseas country market (Doole & Lowe 2007). There is always a certain risk that the licensee has the knowledge to develop new or same products that can compete with the licensor products or goods (Doole & Lowe 2007).

(II) Franchise
It is similar to licensing, but there is a minor difference between licensing and franchise. The franchiser can help and involve itself in the franchisee business. Furthermore, the franchiser could apply stiff rules on the franchisee business in the overseas country market (Dool & Lowe 2007).

2.6.3 Investment Entry Mode
(I) Green Field
In this mode of entry the company institutes a full function in the target country's market and exploits competitive advantages to higher degree than ordinarily achievable through contractual entry mode or export. Investment entry mode permits companies to control the international marketing plan and to gain logistical benefits that may arise from the circumvention of import hurdles, savings in transportation cost and lower manufacturing cost. In Green field investment companies may found manufacturing units and
machinery. Company has full control over business activities and profit (Doole & Lowe 2007).

The demerit of green field investment multi culture in the overseas country and domestic information is difficult to gather high resources are required to apply into the foreign market. High resource commitment in the overseas market create exit barrier under uncertainty (Doole & Lowe 2007).

(II) Joint Ventures
When international firms invest their capital in the target country with local partner firms, then overseas investor may have the majority or minority or partial joint ventures equity. It is started from scratch but may result from the purchase of equity in an existing local company. Companies more prefer this mode of entry because they share the risk and costs among other business partners and partner in the foreign country and profit share depend upon agreement (Doole & Lowe 2007).

The core benefit of this market entry mode is to employ host country business partner as they share their experience knowledge of the particular country or their local market (Doole & Lowe 2007).

The disadvantage is difference in the aim and objectives of the participating firms which can cause disagreement on the question of investment, strategies, lose control of the form assets like technology, and overall goals of particular companies. Some countries put restrictions to adopt joint ventures. For instance in Philippines confined foreign ownership. (Doole & Lowe 2007)

2.7 ENTRY MODE CHOICES IN THE INTERNATIONAL MARKET FOR SOCKS KNITTING INDUSTRY
In the socks knitting industry, entering into new international markets takes place through different market entry modes. For small and medium enterprises it can take the form of exporting at the beginning stage, and for MNCs it can take the form of acquiring local firms or joint ventures with them. It can also take the form of a request from a local government based on a company's goodwill on special projects in the market (El-Gamal 1993). Governments play a major role in promoting hosiery industry work through bilateral relations and foreign aid with other governments (Ostler 1998). Other forms of entering new international markets are through foreign direct investments, export, licensing (Buckley et al, 1991) and competitive tendering (El-Gamal 1993, Wheeler & Woon 1987).

International contractors tend to use different approaches when entering new international markets according to host country market conditions, and prefer complementing their lack of local skills by joint ventures (Strassmann 1988). Another form of entry in an international market for contractors is the formation of a consortium with home country partners, where one firm is managing the project and the others doing the work at their own set prices. When small and medium enterprises penetrate new international markets,
they take the form of causal or accidental exporting or foreign licensing (El-Gamal 1993, Kurtz 1984). Erramilli and Rao (1993) added contractual transfers to the international market entry mode choices of manufacturing industries and it included licensing and franchising.

Each of these international market entry modes involves diverse levels of resource commitment and consequently these resources associated with diverse levels of investment risks. Normally, the higher the resources committed level, the higher is the investment risk. In the socks knitting industry entering into overseas markets takes the form of exporting, contractual agreements, joint ventures with home country partners and host country partners, as well as wholly-owned subsidiaries. International contractors mean MNCs tend to prefer operating as joint venture with host country partners, others prefer to export their products through agents and distributors basis with no long-term involvement (El-Gamal 1993).

2.8 FACTORS INFLUENCING SELECTION OF ENTRY MODE [BY KOCH]

Management decides which market entry mode is the most suitable to penetrate a new market, a company has to consider different factors, which will determine the right selection of entry mode. Koch (2001) categorizes these factors internal and external company size, product and experience. The size, product and the overseas experience of a firm are very important factors which determine the different options to acquire a new market for a firm. Alexandrides (1971) found that, when manufacturing exporters perceived lower trade barriers to internationalizing, they tended to have a more positive attitude toward expanding globally.

Figure: 5 Shown Factors influencing the entry mode selection

![Diagram](image-url)
Koch factors effecting selection of market entry mode (2001)

(I) INTERNAL FACTORS

Company Size/ Resources
Small companies have limited market servicing alternatives as Koch (2001) has quoted from Benito & Welch 1994. Small companies have limited amount of resources and may just not allow, or not support the selection of some market entry modes. Researchers indicate that the probability of international activity increases with the firm size (Aaby, slater 1989 Ali and camp 1993, Erramilli and Rao, 1993) Resource theory is used to explain firm size relationship to internationalization (Bonaccorsi 1992). Aaby and slater (1989) argue that international expansion requires a great deal of resource commitment by the expanding firm. For example, to set up a fully owned subsidiary often connects with very large investments as well as high risk. Similarly, small companies may not have suitable management potential and special skills to enter overseas markets through establishing fully owned foreign based subsidiaries or international joint ventures.

Product
Koch (2001) states that differentiated products with obvious advantages compared to competitor’s products give the seller a very clear limitation when it comes to price setting. Well differentiated products can demand high transportation costs; high import taxes still remain competitive. On the other hand, the standardized products that are not differentiated have to compete on the price they can offer for the customer. It is only possible with some local production. Therefore, high differentiated products are preferred to enter overseas markets through export, low differentiated products forces the firm to home manufacturing/contracting manufacturing or equity investment. Kindle Berger (1969) states that when product differentiation through R&D exists, companies will search to set up control over these benefits and look after them from distribution through the use of investment of market entry mode.

Manufactured products that needs pre and post purchase services often seems harder for a firm to market from a far distance. Usually when providing product services the company needs to be close to the customer, service intensive manufactured products are biased towards branches/subsidiary exporting local production modes of entry.

Technology intensive products give the firm an opportunity to license its technology in the overseas host country instead of using other entry modes. Due to the fact that technology intensity in many cases is higher for industrial products, firms are more optimistic entering licensing provisions than consumer product companies. Those products that desire a high level of adaptation when going to be marketed in a foreign country prefer entry modes that permit a company to have a closed distance to the overseas market, which means that entry modes such as subsidiaries/ branches, exporting local production are suitable alternatives.
Management Risk Attitudes
Anix (1988) states ‘A link between managers attitudes towards international expansion should not be undervalued’. Management attitudes act as guiding force of the organization. He further states that attitudes towards exporting become more positive, managers become less concerned with the complexities of international expansion.

Additionally, research from the manufacturing sector strongly supports the relationship between managerial attitudes and internationalization (Cavusgil & Nevin 1981). It depends on the firm's financial condition how much risk it bears in international business, its tactical alternative, the competitiveness of its competitive environment and its experience. Companies should, however, be alert perception of risks associated with individual market entry modes or else countries can influence companies’ decision considerably. The lower degree of risk evasion the management, the more likely it is for the company to choose countries that show higher degree for long-term forecasts and promise to progress the firm’s competences as Koch (2001) quoted from(Johansson 1997, p.124).

Profit Objective
Various market entry modes make profit to different level. The differences of profit production of altered modes e.g., indirect export and deal in a new built-up and marketing overseas company will be very unlike. Indirect exporting will demonstrate several profits extremely fast and then many soon reduce, the former could indicate denial of profits for three or four years where it requires time to make all essential market connections, attain/ make required resources, prepare the sales strength as necessary, extend client base, etc. An extensive time profit target might choose the practice of savings and a small one will support indirect exporting.

International Experience
According to Root (1994) 22 identified influencing market entry modes influencing factors. For example, existing theory suggests that international experience is positively related to entry mode selection. The more international experience a company has, the higher its propensity to adopt a high entry mode (Anders & Gatignon, 1986). Other researchers assume a negative relation i.e., the more international experience a company has, the lower its propensity to adopt an entry mode with a high level of equity (Weichmann & Pringle 1979). Koch (2001) argues that International experience factor is also influence on market entry mode selection.

The international experience is reason that describes the intensity cooperation has been vigorous in effective internationally and is accomplished through operational in a unambiguous foreign state or in broad in the international surroundings. International experience builds the charge and ambiguity whilst lower working in a foreign market as well as produces an upper level probability for execute resources to global markets. Hollensen (2004), Johansson and Vhalne (1997) saying that a firm’s immediate experience in the international marketplace increases the probability to contribute additional resources to global markets.
(II) EXTERNAL FACTORS
Factors which control the market entry mode selection process fall into three general groups: internal, external and the mixed.

**Environmental Factors** refer to risks or uncertainties associated with the host country, the risk of enforcement of contracts and control of other kinds of legal and political and legal host country conditions. Brouthers & Nakos (2004) quoting (Williamson 1985, Erramilli & Rao 1993, Gatignon & Anderson, 1988) companies choose the non equity low investment entry modes when operating with uncertainty in the host countries and change their strategy, or in worst case exit the market.

Foreign country market size has major influence on market entry mode. For SME, s small markets entry mode fits with low break even sales volumes like exporting, agent or distributor, licensing and other arrangements.
On the other hand, markets with high sales potential fit entry modes with the high break even sales volumes like subsidiary, branch, and exporting and equity investment in local production (ibid).

**Industry Feasibility/ Viability** refer to countries' forbidden entry modes according to their laws like joint ventures and fully owned subsidiaries. Some countries allow investing in subsidiaries through taxation. This avoids the company to pay custom duties. Different risks and cost associated with different entry modes, some entry modes suitable in the given situation.

**Market Growth Rate**, Market factor concern to managers include host country government Legislations on market entry, prohibition or limitation of foreign ownership, local content requirements, financial and fiscal control (Czinkoa, Ronkainen, 1990 & Dunning 1980). Koch (2001) states that while selecting market entry mode it is used as criteria. When countries have a high market growth rate and it does not seem consistent for several years. The company has the opportunity of using entry modes of fast expansion. Otherwise, when growth rate of demand predicted for several years, the companies establish modes as joint ventures and fully owned subsidiary.

**Image Support Requirement**, Koch (2001) states this factor refers to company repute, can be influence market entry mode decisions. To maintain their image companies license their products to enhance their role as world provider of latest technology, thereby enabling the company to influence world standards.

**Global Management Efficiency** requirement Koch (2001) sates when companies’ involvement is high in internalization process. Company resources start decreasing. It is important to overlook company strategy. Some firms select multi mode of operation in such situation.

**Popularity of Individual Market Entry Mode** refers to particular nature of a country market. Country markets have certain market entry modes with popularity than others.
New entries in this type of market are influenced by the experience and degree of success of the former entrants as well as market product situation.

**Socio Cultural Gap** Hollensen states that (2004) between a company's home and host countries creates uncertainties for the company which led to affect in selection of market entry modes. Companies considered this factor between countries joint ventures and direct investment. With large cultural gaps, companies try to use entry modes with low resource commitment and high flexibility. Some economists or marketing experts argue that cultural distance or gap between home and the host country discourage the ownership involvement, i.e. it is negatively related to the level of control. This view point is supported by Gatignon, Anderson, Kogut, Sing (1988), as well as Errainiilli & Rao (1993).

2.9 FACTORS INFLUENCING SELECTION OF MARKET ENTRY MODE

According to Root (1994) the factors that were affect the choice of foreign market mode and the name given external and internal factors.

**Figure: 6 Factors affecting market entry mode decision**

Source: Adopted from Root (1994), P.9
The socio cultural gap between the home country and the overseas country creates an uncertain situation for the company which leads to influence in selection of entry mode. When there is far distance between two countries. Companies hesitate to use entry modes like joint venture and foreign direct investment. At this situation company uses market entry mode with low resource commitment and high flexibility.

Environmental uncertainties connected with country risk political and legal enforcement of contracts and control. Brouthers & Nakos (1994) state ‘Companies operating in environmental uncertainties select the non equity low resource entry mode’. Through this it is easier for the company to adapt to circumstances or change the partners or easily exit from the market.

To study the Market size is important and has influence on the market entry mode. Small markets encourage entry modes that have low breakeven sales volume. We research on SMEs and with limited resources of the company. Root (1994) states size refers to the resources available to the firm like finance, technology and human skills. He further states that resources give edge to the company in selecting the market size of the host country.

A home country factor refers to home market, production and environmental factors. If the size of the home country market is big, this enables the company to expand their activities in the home market before going foreign market. If the cost of production is high in the domestic market and company will choose the overseas market entry modes such as exporting contractual and investment. Another factor is the home country government rules and regulation regarding domestic firms.

Resource commitment refers to a company with sufficient resource capital, management, technology, marketing skills, production skills. The various market entry mode choices with scarce resources are constrained to use multi market entry modes. Therefore, size of a company is a critical factor in the choice of entry mode.

Differentiated products Root (1994) argues highly differentiated products with distinct features give a significant edge to seller over competitors. These products bear high transportation cost, heavy import duties and competitiveness in the overseas country. Conversely, low differentiated or weak products must compete on a price basis in the target market which is only possible through local production. Hence, highly differentiated products favor export entry while low differentiated products pushes a company to local production and suitable entry mode option is manufacture contract or equity investment.
2.10 SUMMARY

The conceptual framework which emerges from the studied literature in the thesis produced to help us to answer the research question. In order to do so literature perceived as the most relevant to the research study will be selected and presented. Furthermore, each presented theory is connected to the research question.

In the literature we studied the different theories and models relevant to the research question.

Eclectic theory suggests the importance of firm- and location-specific factors to explain international operations. Dunning (1980) states that specific organizational skills or technologies permit a firm a competitive advantage in the marketplace. The transaction cost model explains internal, external, risk return cost, choice of entry mode and profit maximization. We also studied two schools of thoughts - first the stages theory and then the contingency theory. Both theories explain the importance of factors in the international market.

The author divided into two parts strategies of market entry mode and influence of factors. In a company managers consider many factors while making decisions on selection of entry mode. We choose a set of internal & external factors for our framework. The purposed factors belong to Koch 2001, Hollensen 2004, Root 1994, Brassington and Pettitt 2000 entry for literature. The researcher criterion of selection was based on validity for our particular two company cases.

Root (1994) divided these factors into two groups. Koch (2000) introduced a third group called mixed factors. In the literature Internal factors are a set of strategies and characteristics of a company which influence on entry mode. Internal factors are controllable and modifiable, while external factors are uncontrollable and affect entry mode decisions. In the context of selection of market entry mode decisions, Luo (2002) states that particular country specific location disadvantages affect entry strategies in all markets. The researchers affirmed the underdeveloped information (factor & mode of market entry) should be considered while making decisions in SMEs play important role in affecting particular companies given performance.
CHAPTER 3

3.0 RESEARCH METHODOLOGY
Different research methods are discussed in chapter two. Furthermore, it describes how the research was conducted. Moreover, it also explains how the authors have dealt with issues related to the quality of this research study. This chapter also presents the research challenges and difficulties which were coped during the commencement of this research study along with their potential solution.

3.1 RESEARCH APPROACH
There are two general research approaches quantitative and qualitative. Investigating and executing the research study to have an in-depth knowledge about the subject matter of the research study. The researcher employed the qualitative research approach in the thesis. The reason behind selecting this method was due to anticipated flexibility in nature of this research study. Foster (1998) argues that qualitative research stresses on processes and meanings that are not strictly examined or even measured in-terms of quantity intensity and amount. The researcher states that qualitative research is inductive, interpreting and constructive. There are several specific criteria for qualitative methodology such as in-depth understanding and exploration. The purpose of this research is to gain the better understanding of specific phenomena for this reason our research approach is qualitative.

3.2 RESEARCH STRATEGY
According to Yin (1994) there are five research strategies experiment, survey, case study, history and archival analysis. The author choose to perform case study because Yin (1994) argues that ‘case study is the most suitable way to answer when question is in form of how, when and why, there is no control over behavioral events and focuses on contemporary events’. In order to provide evidence on research problem an empirical detailed investigation was performed on two SMEs.

In order to approach our research purpose and answer it, the case study will go in-depth of how; SMEs selects foreign markets and what kind of market entry mode are used. We also studied what internal and external factor influence in making these decisions. The authors designed the research question containing the comparison of two Pakistani (Socks knitter Pakistan & RK International) SMEs, in order to get detailed information and it is also assisted in sharing of individual experience of two companies.

3.3 KINDS OF DATA COLLECTION
Data sources used in the research study were primary and secondary. Yin (1994) explains different sources of data collection for case study; archival records, documentations, direct observations, participants’ observations and interviews are through which qualitative approach can be applied.
3.3.1 PRIMARY DATA
Primary data could be gathered through various sources personal interviews, verbal reports and observation (Ghauri & Gronhaug 2005). An advantage adopting this is that data information is gathered first hand and less there are chances of biasness because questions freely posed in-order to get answers to the questions under investigation in a research study.

3.3.2 SECONDARY DATA
The researchers also used secondary data which was acquired utilization of through different sources. Secondary data is comparatively easy to use and more realistic (Lundhale & Skarvad 1992) for getting in depth knowledge by using online database, Magazines, Newspaper, books, journals, articles and web sources and contacting the company via mails etc. According to Ghauri and Gronhaug (2005) the researcher also use the secondary data which collected through different sources such as various reports of SMEDA, Annual economic survey of Pakistan, various reports of UNCTAD, Web sources and by also contacting the company via mails etc because the research study based on Small and Medium Enterprises issues. The company web (www.socksnitter.com) then we did interviews with RK International officers’ in order to fulfill the demand of our research question and purpose of research. The company has a web (www.rkinternational.com).

3.4 DATA COLLECTION METHODS
Based on the chosen research approach for this research study which is qualitative, Questionnaire was designed in order to meet the demand of the research question and purpose of the research. The questions investigate; what are the internal and external factors which influence companies in the selection of market entry mode by focusing on Pakistani Small and Medium Enterprises applied strategies. Questions were asked to the respondents based on their past experience, internationalization process, and factors influencing while making decisions of entry mode.

The question format of this research approach was both open-ended and close ended. Open ended question enable the respondent to answer the questions in their own words. Close ended question give multiple choices to select one from many options. The questionnaire was well structured in order to find the answer of research question. The interview guide was made through the use frame of reference in chronological order. Interview question were made by using the theories regarding internal and external factors. The data format of was textual (audio tapes, footnotes etc.) It was then transcribed in order to ensure the data was collected and used accuracy of collected data. Interviews were conducted in January 2010.

3.5 SAMPLE SELECTION
Due to the large number of SMEs operating in Pakistan, it was not possible to assess all of them. Because it would consumed a lot of time and resources of researches and at the same time the scope of current research would also have increased. Top 10 Companies were selected from the industrial i.e. Hub of Pakistan Faisalabad. These companies met
the selection criteria; they all were of international standard by the means of size and number of employees. Therefore authors made a random sampling out of 10 companies and selected two of them from Hosiery industry for this research. The reason for selecting these two SMEs was because of continues involvement in international activities. Small and medium size enterprises highly depend on export sales. Both companies were established and serving in Pakistan for a very long time in domestic as well as in international market activities. However the researcher believes that Pakistani companies in general are easily accessible than foreign since the researcher is Pakistani. It is easier to conduct interview in national language Urdu and get in depth information.

3.6 HOW THE INTERVIEW WAS PERFORMED
As explained earlier the purpose of this research study to take a sample of two SMEs who are engaged in socks knitting, the authors were going to conduct an interview on the subject matter under investigation.

Interviews were performed with Heads of managerial staff of the SME’s who are responsible for export Department one is CEO of Socks Knitter of Pakistan has an experience of 13 years while the Managing Director of RK international possesses 10-12 years of experience in export. Both persons are responsible for taking major decisions in the company. The questionnaire was sent to them one week before the commencement of interviews. As mentioned above the subjects were selected on the basis of their solid experience in their relevant fields. Anonymity of respondents was assured on the basis of their past experiences. The author gave sufficient time to management of the companies to prepare themselves for getting in depth information. The interviews had duration of 35 to 45 minute, which give time to both interviewers to discuss about the subject of issue by having free back and forth discussion.

Management of both companies was cooperative to us and provided us with the sufficient information which eventually leads to the answer of selected research questions. The executives of both companies were quiet interested in obtaining the results on the factors influencing the selection of market entry mode. Each top executive participated individually in interviews. However the subject of discussion was only to investigate research question and purpose of research.

In a sequential order researchers conducted the interviews. Firstly interviews were conducted with Socks knitter Pakistan official’s management and then RK International Pvt. Ltd. (Questionnaire are attached in appendix).

3.7 DATA ANALYSIS
After collection of empirical data the process of data analysis was performed. We started the process of data analysis. Firstly, data was selected, abstracted, focused, simplified and transformed through this way. We organized the data in such a manner that any inferences can be verified and drawn. Secondly, concentrated data organized in a compressed way to make it simple for drawing conclusions. Finally, researchers started to make comments and cleared the meanings of noting events regulations patterns
explanations, configurations, causal flows and propositions Yin (2003) states, by applying past preposition strategy.

In data analysis our obligation was to understand the both cases separately. Each case analysis was made separately. Firstly a detailed transcription was prepared. Most of the interviews were recorded. The transcription and interview notes were arranged and systematized in themes by the researchers. In research study, some of the themes and constructs were derived from the extant literature (Stake 1995).

The author had built up research question from previous studies as well. The data which was collected by the researchers under discussion was also compared with the previous studies. At the same time we also reviewed the already available and analyzed data from the secondary resources that were available. Therefore, we categories our research study as a case study analysis (Yin 1994).

Each case study was analyzed in depth to draw conclusion. The authors, analyzed the data within the case where the data was collected from two SMEs, compared with the gathered data from past studies. The author al performed the cross analysis of both the companies. The researchers needed to do this research in an organized manner, so that it was easy to understand the logic and purpose of our study. According to (Ghauri 2005:3) ‘Research is a process of planning, executing and investigating in order to find answers to our specific questions’.
Chapter 4

4.0 EMPIRICAL DATA
This chapter presents the data collected from the investigated two Small and Medium Enterprises Socks Knitter Pakistan and RK International. This chapter presents the data collected from the investigated two Small and Medium Enterprises Socks Knitter Pakistan and RK International. The research study focuses on the factors effecting on SME’s in selecting entry mode in international market.

4.1 CASE (I) SOCKS KNITTER PAKISTAN
The respondent is Tazeem ifthikar who is the Managing director of Socks knitter Pakistan. He is serving in the export department more than 14 years since “Socks knitter” established in 1995. Company business is Hosiery manufacturer. The Company uses the material for their product that is available in cheap rates within the country market. Their total number of employees 101-245 and annual total revenue USD 100,000-500,000, pioneer in producing prestigious brands. List of brands we are currently producing, clearly defines the highest quality standards and service is capable of offering to its clients. Puma, Reebok, Levis, Fila, Sergiotacchini, Micheal schumacher, Gold toe, Slazenger and Columbia etc. etc.
The entry mode used by Socks Knitter Pakistan is direct export, indirect export and cooperation with other overseas companies. The company is in the international market since after the two years from its start up because of the local market being too small to be profitable. The internationalization process starts through industry trade show where different connection with different sakes agents was made. For this purpose company participated 9-16 different trade shows worldwide and the reason were attending to introduce their Hosiery products in international market. The internationalization process started in USA, Canada, and Australia after getting good response form these markets moving towards Europe.
The company future goals to spread their international operations in former soviet such as Russia Ukraine as an example the company receive orders from Kazakhstan and Azerbaijan.

(I) INTERNAL FACTORS INFLUENCING SELECTION OF ENTRY MODE
The most important single factor is the management risk attitude flexibility and dedication. It is the management responsibility to lead the company domestically and internationally and remove all the hurdles while entering international market. Knowledge is the basic element that provides the base to the management make decision regarding international market entries, if Socks knitter Pakistan chooses an export, wholly owned subsidiary or joint venture then have to choose the entry mode and the risk connected with the entry mode.
The respondent views all the internal factors as necessary to keep in mind. The company resources and international experience are considered to be important to the company. In order, to avoid risks while entering international market. Company uses contracts for
terms of payment and guarantees to assure financial security. Company strategy is to conduct business sales is only in US $ and if the customer demand any other currency, measures are taken to avoid the exchange rate loses. The respondent clearly mentioned that the company does not take any currency risks.

The companies get information about market conditions in other countries through engagement in business associations such as PHMA (Pakistan Hosiery Manufacturing Association) and world Hosiery Manufacturing Association as well as national and international consultants. The consultants turn to socks knitter with a project. Socks knitter Pakistan thereby gain knowledge about the market conditions in that particular country market. This is usually performed within 2 to 3 years before launching the project and considered to be great way of keeping up with current events on existing markets as well as the development of new emerging international markets. The decision is what way to enter new international market is not often directly taken by sock Knitter Pakistan but as a result of cooperation of large international companies that buy socks Knitter Pakistan products. Thereafter cooperation leads to local knowledge about company and their products, which if country conditions are favorable in turn leads to further establishment by socks knitter in that particular country market.

Regarding the internationalization and entering new markets Socks knitter succeeded very well with exception of Peoples Republic of China. The reason for failure in particular market is according to the respondent cooperation with wrong partners. The respondent says that experience of market entry mode in one country may not be successful for other country. For example the general agent system in china has discouraged the company from trying to enter the market without cooperating with one of those general agents. Despite the failure mentioned the company is not discouraged by previous experience which making choice of entry mode for new market. Each specific entry mode is adopted to the current market conditions rather than compared to the experiences of success or failure in previous market entry attempts. Therefore the respondent says that a previous failure with a specific entry mode does not exclude that entry mode in another market because of ever changing market conditions. While entering a new market the company reaches the profitability within one to three years from market entry despite the lack of specific strategy while entering a new market. The respondent clearly states that their selections of entry mode are not influence by profit target.

The respondent states that the product is the most important factor for the company that is to be considered. Not only the major and finest quality products but also has a huge and flexible production capacity that enable us to offer a wide range of high quality socks in thousand of styles for all age groups.

(II) EXTERNAL FACTORS INFLUENCING SELECTION OF ENTRY MODE

The respondent views about the Industry feasibility/viability entry modes, market growth company considered to be important. The respondent states that “Socks Knitter Pakistan” trying to avoid such entry modes that are not allowed to use by law in certain areas and use as agents and distributors. For e.g. in some countries joint venture and wholly owned subsidiaries are not allowed by law in Philippines and Japan are To some extent socks
knitter Pakistan get influenced by the external industry feasibility of MEM while deciding the suitable mode of entry. When socks knitter selects market entry mode they are not sure, the selection of entry mode affected by how the industry feasibility/ viability is associated to market growth. If the market growth is fundamental factor that socks knitter considers while deciding on they enter the foreign country market or not. The respondent states that company is serving in the international market almost 14 years, but did not found the need of image support requirement does not influence the company. Their major markets in USA, Canada, central and Eastern Europe and that they have market objective but no market image requirement support the company. Koch (2001) states that there are companies that wants to build and maintain an image of a leading global supplier in the market. Companies could if they see it necessary license their new invention to expand their image as a global supplier of latest technology and affect relevant industry standards. Some companies try to maintain the same standards after the sale, which may lead to the preference of market entry modes, which facilitate the accomplishment of this objective by setting high control over service network and distribution.

Regarding the factors global management efficiency, popularity individual market entry mode foreign country market factors, foreign country environment, and market growth that affect the selection of market entry mode. Socks knitter Pakistan is not bound to use a one entry mode allovel the world. It used entry modes according to the market situation where they are going to enter and has a flexible policy. Therefore Socks knitter Pakistan mentions that global management and competition in the world have made them more adaptable. Socks knitter Pakistan is not imitating of other companies’ entry mode, they have their own polices and their own strategic thinking but naturally it is necessary that they are influenced of what their competitors do. But they have check on the competitors’ activities. Environmental factors are important while making the choice of market entry mode. According to Socks knitter Pakistan, the political conditions is always considered before entering an overseas market, Socks knitter Pakistan try to keep away from such countries with unstable political and economic system which power structures and business environment are bad with a form of undemocratic way of governing. For e.g. in 2009 company has a plan to enter in the Bangladesh but the political situation of the country is bad and company wind up the project.

Socks knitter’s strategy when it comes to the markets with high growth rate is try to gain the so called the mover advantage. This is performed by determining which markets will reach high growth rate and establishing their presence in these types of markets before it occurs. The socio cultural factor not considered important by the socks knitter it does not affect him.

Socks knitter does not have any restriction from the Pakistani government regarding trade and there are no home specific factors of relevance when it comes to selecting entry mode into to international markets.

4.2 CASE (II) RK INTERNATIONAL PVT. LTD

The respondent is Kamran abid who is the Director of RK International and controlling the exports of the company since the beginning. The RK international established in 1996, The company business Hosiery manufacturing and from 10-12 years doing business in international market, Total number of employees 101-239 and annual total...
revenue USD 100,001-550,000, they are pioneer in their field, produce prestigious socks brands. List of brands we are currently producing, clearly defines the highest quality standards and service is capable of offering to its clients. Puma, Reebok, Levis, fila, sergiotacchini, micheal Schumacher, gold toe, slanzenger and Columbia etc. etc. The entry mode used by RK international is direct export cooperation with other companies. The company enters into the international market because of maturating the Pakistani market and thereby forced by Pakistani companies in the industry to change direction or search for new opportunities in new markets. The internationalization process started from Australia and then continued to USA Canada, Scandinavian countries. Furthermore, east European and East Asian countries country markets are important to the company. The company is using the agents and directly takes the orders in those markets.

The company future goal with their extended international operations is simply to grow which is totally coherent with the company strategy. This is company part of the decision as to why the company is and should continue to conduct the business as the domestic market is matured. While entering a new market, the company considers the importance of the factors that affect him.

(I) INTERNAL FACTORS INFLUENCING SELECTION OF ENTRY MODE

Resources are always the critical issue since it is impossible for the company to finish a project without sufficient resources even though every project is financially viable. Due to limited resources it is not possible for the company to open their subsidiaries or adapt joint venture. So it used distributors and agents because of limited financial resources for their product. Regarding the management risk and profit target, the respondent states that the company has not seen they affect while making selection of entry mode. The respondent state that international experience and experience if using market entry mode has great importance because since the beginning of the entering international market company has lack of experience and using of entry mode dealing with new market in distributors or agents in USA bear the loses. It does not mean that distributors or agents are not successful. The respondent states that the company main strategy for entering international markets is to grow through finding strong local partners which allows them to win contracts.

Regarding the question of product, the respondent view that company tries to find suitable markets for their product, and company have marketing and sales department who is responsible for the gathering of information about market conditions of other countries for their product. The product characteristic for example features as value/weight ratio, and packaging is important while making decisions regarding where the production performed. Those Products that have high value/ weight ratios are most possibly used for direct exporting. Moreover, the product with low value/weight ratio is low such as soft drink industry, companies be likely to choose licensing agreements, or investing in local production. Shipments to foreign country markets far away would be unaffordable for the company because of the high transportation costs (Hollensen, 2004).
(II) EXTERNAL FACTORS INFLUENCING SELECTION OF ENTRY MODE

The respondent states that about the industry feasibility viability of market entry modes has not influenced because viability such as those industries of countries that do not permit certain entry modes. But in the world where it is used to see foreigner enter to markets through distributors and agents as entry mode for e.g. in central Europe RK international working through distributors and agents.

Regarding the image support the respondent state that it has less importance and RK International do not feel “image support” influence the company selection of entry mode. The respondent states that company prefers to enter small market with moderate growth and also prefer to enter in such market with local distributor or agents in Scandinavian country markets. The Company is succeeded in these markets.

Regarding Global management efficiency respondent views has great importance in selection of entry mode. RK international makes assessment regarding how they will try to increase their sales volume in a market and then examine and compare the costs to the forecasted revenues they will get from the sales. If the costs are higher than the revenue, RK international will not enter the new market. If the revenue is greater than the costs then RK international try to enter the new market and they will also consider the relationship between success and the time it takes reach for each entry mode, means RK international have to make a decision on what entry mode is most suitable in use the recourses spend and the desired time into consideration, for the entry mode to reach success.

The respondent argued that foreign country environmental and market factors are important because Environmental factor influence by the RK international in selection of market entry mode e.g. poor structure of economies and uncertain policies conditions. RK international choose agents or distributes instead of subsidiaries. They choose agents or distributes from that area is well known by him and less risky and company try to avoid make heavy investment. However RK international do business in US dollars instead of local currencies due to stability. Market potential growth and business ethics affects the RK International choice of market entry mode RK international focus on small markets with moderate growth. RK international use agents and distributes where geographical regional problems regarding payment.

The respondent argued regarding the popularity of individual market entry mode. Company has not immediately affected of the entry modes that are commonly used in their industry or by their competitors. Company has their own plan and policies since they have been international for a long time. Since the start of Internationalization Company sees in the home country which mode of entry is popular and commonly used by their competitors? However, RK international said that sometimes select the same entry mode as their competitors and believe this mode of entry is sufficient and lead to success and profitability in the future.
Chapter 5

5.0 ANALYSIS

In this chapter we present the analysis of the empirical data to get answer of the case study. So here, analyses of the two cases are presented by comparing the empirical data with the literature review. So first we will present the internal factor’s analysis for both companies, and then the external factors. After this the factors are summarized in a table for more clarification.

5.1 INTERNAL FACTORS INFLUENCING SELECTION OF MARKET ENTRY MODE

Koch (2001) and Hollensen (2004) introduced a model of market entry mode selection process and define some types of internal factors which influence the MEMS. For the purpose of our study we have selected six factors from the factors presented by them which are as follows: Company size/ resources, Experience in using MEMs, Management risk attitudes, Profit Target, International experience, Product

5.2 CASE STUDY (I) SOCKS KNITTER PAKISTAN

5.2.1 Company Size/ Resources

Koch (2001) explains that the company size / resources can affect the company’s choice of market entry mode. Because due to limited resources, smaller companies usually have fewer market servicing options. Their limited resources may not permit, or discourage from some market entry modes. Socks Knitter confirms this theory, because company falls in the SME’s category and due to lack of resources they do not have a company’s own subsidiary.

Socks Knitters talk about the importance of the size and resources when they want to enter foreign market. They also said that company with huge resources and sizes have more opportunity in selections of market entry mode rather than smaller companies have less opportunity while marketing the selection of entry mode due to limited resources. Koch (2001) and sock knitter has same opinion that size of resources affect the selection of entry mode.

5.2.2 Experience in using MEMs

Koch (2001) argues that experience is essential to every individual in selecting their type of market entry mode. From the basis of our analysis, we have come to know that experience influence Socks Knitter in selecting their market entry mode. They understand how experience can be useful for selection of entry mode; e.g. cooperation with a large international firm. Thus they support the Koch’s theory. Socks knitter knows that the experience in using MEMs is an essential key for success while making decision for entry mode. So these results verify the theory argued by Koch (2001). Therefore we can see a relationship between theory and company’s statement, that companies’ prior experience on market entry mode affects their decision selection of entry mode.
5.2.3 Management Risk Attitudes
According to Sock Knitter, risk is projected when selecting their entry mode. So this respondent said if they decide to choose a wholly owned subsidiary then they have to conduct a research in which they will have to analyze the risk which is connected to the entry mode. Then the top management will decide on the risk factors and if risk is high then they will compare it to the potential of the market. Because some markets have very high risk but still they have very high potential then in this case according to our respondent, they said it could be worth investing. They indicated too that the potential of a market to them also depends on if the market accepts Sock Knitter’s products and also local conditions of the marketplace such as market growth and the population growth in the area. So management of Sock knitter argues that they are risk averse despite their positive result and it contradicts the theory of Koch (2001). According to our analysis, the sock knitter company’s respondents are showing risk averse attitude which negate Koch (2001)’s theory.

5.2.4 Profit Objective
Profit target of the company affect the choice of market entry mode Koch (2001). But according to the company’s management, it all depends on the strategy, with which they choose to enter a new international market; the targets for profits can vary. The author of the theory argues that it is difficult to earn profit in a long term by choosing the profit as an objective earlier. So the companies who choose the entry mode with a long term profit do not generate profits quickly but through this strategy they can be able to sustain the long term profitability.

According to our finding, Sock Knitter are project profit target oriented, where they believe that every project embarked upon is supposed to bring profit. These findings are not consistent with Koch (2001) theory regarding profit targets.

5.2.5 International Experience
With the passage of time, international experience of Socks Knitter increased. At the beginning Socks Knitter did not have any experience and also did not export their products abroad. But now Socks Knitter’s daily business has expanded from local to international therefore they can decide which mode of entry to select based on acquired experience. They can choose any entry mode. Hollensen (2004) states international experience legitimize the cost and low understanding when working in foreign market as well as produce higher level of likelihood for committing resources to overseas markets. He also states that a company immediate experience in the international market increases the chances of committing additional resources to decreases market. Socks Knitter and the theory presented by Hollensen (2004) agree with each other that is the much experience a company gains the more resources the company will commit.

5.2.6 Product
Product features influence the entry mode. So Socks Knitter says that the cost of transaction and high excise duties affect the entry mode. It’s hard for the company to
export their products if these are very heavy or big in size. The product features e.g. characteristic value/weights packaging and composition is important where the production should be performed. Shipments to foreign markets far away would not be affordable for the company due to high transportation costs Hollensen (2004). The research conducted by Hollensen (2004) and empirical data from the company shows that the products characteristic will affect the choice of entry mode.

5.3 CASE STUDY (II) RK INTERNATIONAL PVT. LTD

5.3.1 Company Size/Resources
RK international discuss the significance of size and resources while making decision to enter into new markets. They also believe that the companies with larger size and resources have more options regarding the choice of entry mode, and the smaller companies are more restricted while selecting the market entry modes due to limited resources. Therefore it could be more challenging as well as harder for smaller companies to use some market entry modes that need a large amount of resources. For example, to start a fully owned subsidiary often demands heavy investments. Small companies usually do not have satisfactory management skill to enter international market abroad through establishing fully owned subsidiary or international joint ventures.

The observation of RK International and the theory provided by Koch (2001) agree with each other saying that the company size/resources affect the choice of entry mode.

5.3.2 Experience in Using MEM
RK international said that experience gained from the use of different market entry modes have had an impact on their selection of entry modes. RK international agrees that past experience from entry modes will fit companies’ selection in the future. They also said that agents and distributor’s experience can be successful for selection of market entry modes. Moreover one has to be very conscious and keen while using agents and distributors because RK international history has had tough time with some distributors and agents. Naturally this can affect their selection of entry modes.

Koch (2001) quotes from (Paliwoda, Thomas 1998, Van Fleet 1991, & Root 1994) that how many times, how recently, in what conditions or if it is similar or dissimilar to the company or if the companies competitors have used any particular market entry mode and their success and degrees of all these factors clearly affects both the market entry selection process and the choice of entry mode.

The empirical data and theories quoted by Koch (2001) both agree. Therefore one can see a connection between companies’ past experience of entry mode and its influences on selection of entry mode.

5.3.3 Management Risk Attitudes
RK international says management risk does not affect the selection of their entry mode. Risk associated with International business depends on the financial position, and strategic alternatives of the company as well as the competitiveness of its competitive
environment and its experience. The supposed risk related to an individual market entry mode or country can affects a company’s selection of market entry mode in a significant way as Koch (2001) quotes from (Johansson 1997, p. 124).

RK international do believes that risk is not any factor that influences their selection on mode of entry. This makes it very hard to see any connections between empirical data and previous research presented by Koch (2001).

5.3.4 Profit Objective
RK international says selection of entry mode is not affected by profit objectives. Profit objective are decided depending on the business area. Each product and business area has got its own separate profit targets and there are also overall profit goals for the company no matter if the company is using agents or if it is a wholly owned subsidiary or both.

Different market entry modes are most probably going to generate profit at different degrees; equally importantly, the differences of profit generation of different modes, e.g. indirect export and investment in a new manufacturing and marketing overseas operation) will be very different (Koch 2001).

RK international says that each product has got its own separate profit targets and there are also overall profit goals for the company. Our finding shows that company has a long term profit strategy and it clearly states that endurance for profit generation is not essential. So these findings doesn’t support the theory stated by Koch (2001).

5.3.5 International Experience
Hollensen (2004) quotes from Johansson and Vahlne (1977) that a firm’s immediate experience in the international market place increase probability of committing extra resources to foreign markets.
RK international says international experience have made them more bold in this that the more experience they got the skills, which helps them while choosing the entry mode. According to RK international statement we can affirm that there is a connection between international experience gained and the selection of entry mode. Therefore there is a connection between degree of international experience and selection of entry mode.

5.3.6 Product
Product plays an important role while deciding the mode of entry. It was harder to compete in markets far away than it was five years ago due to transportation barriers; it might be very costly for the supplier to ship the heavy or large product due to high shipping cost. The product characteristic for example features as value/weight ratio, and packaging is important while making decisions regarding choice of entry mode.

So the complexity and differentiation of the product could according to theory affect the market entry mode decision, as different product features could render difficulties of various kinds when entering a new international market.
Data collected from the RK international as well as research study by Hollensen (2004) tend to show that the products characteristics will affect the selection of entry mode.

5.4 EXTERNAL FACTORS INFLUENCING SELECTION OF MARKET ENTRY MODE

5.5 CASE STUDY (I) SOCKS KNITTER PAKISTAN

5.5.1 Industry Feasibility/Viability of MEM
Koch (2001) states that there were some entry modes could be excluded in some countries due to laws and regulations. This theory states that some entry modes could be excluded in some countries due to their specific laws and regulations. The theory based on target country’s specific factor such as labor cost, technical know-how, associated risk, inadequate level of skills. Koch (2001) stated that according to law some countries do not allow to use entry modes such as joint ventures and fully owned subsidiaries.

In this way state reserve their rights on selected industries in which they have interest in. Some countries use barrier, such as strict labor laws, cost of labor, inadequate skills. This may scare a company to set up a subsidiary or a joint venture operation in the foreign market. Different entry modes have particular risks and costs and they have different sales potentials, some market entry modes will be more suitable than others in given situations.

So according to our analysis of Sock Knitter what we are made to understand is that management view the laws and regulations are not only specific to the theory but they also apply it in the real situation while entering in the foreign market. Company is also trying to avoid such entry modes they are not allowed to use by law in certain areas.

In this research study we can say there is connection between the Koch (2001) theories and Socks Knitter views about industry feasibility/viability influences on the selection of entry mode.

5.5.2 Market Growth Rate
Market growth rate is a very significant factor while selecting market entry mode. Socks Knitter agrees with this statement that market growth rate plays a considerable role when deciding on the choice of entry. Sock Knitter carries on Koch (2001) discussion that if there is a market with large population and its growth is continuous then middleclass sector will increase in coming years and all other parameters of market growth will show positive response which in turn will lead them to opening up their own subsidiary. But where market is not a large scale and growth of population and market is still increasing but not with a rapid ratio and this market still seems interesting then Sock Knitter enters the market through agents and local partners.

So analysis shows that connection exists between the theory of Koch (2001) and the company’s management statement. Thus Sock Knitter arguments about this factor affecting the choice of market entry and Koch (2001) theory on market growth rate is influencing companies choice of entry mode is connected with each other.
5.5.3 Image Support Requirements

Koch (2001) states that there are companies that want to build and maintain an image of a leading global supplier in the market. Companies could if they see it necessary to license their new invention to expand their image as a global supplier of latest technology and affect relevant industry standards. Some companies try to maintain the same standards after the sale, which may lead to the preference of market entry modes, which facilitates the accomplishment of this objective by setting high control over service network and distribution.

Socks Knitter argues that this factor does not affect the company’s choice of entry mode. The management quotes that they are focusing on their export planning and they also captured major markets in USA, Canada, central and Eastern Europe and they also have market objective but still they do not consider the market image requirement support for the company. They also said that they are going to be leading exporter in the market in the future. This strategic planning does not relates to an image support requirement that would influence the choice of market entry mode. After seeing both reviews we have realized that there is a contradiction between socks knitter and Koch (2001) views.

5.5.4 Global Management Efficiency Requirements

Today in the world globalization is expanding and at the same time competition is increasing in the international market. Socks Knitter is flexible and adaptable in choosing entry mode according to the market condition. The company adopts the entry mode depending upon the market where they are going to enter. According to company’s point of view, the global management efficiency requirements and rivalry in the world has made it more adaptable. Company has started its business with agents in some markets, and they are waiting for the right time when the circumstances on the local markets will be getting better, and when they can consider that they have the recourses and that a particular market also have the required potential, they will set up their own subsidiary in that market. Thus Socks Knitter choice of market entry mode is affected by the global management efficiency requirement.

Koch (2001) states that the rising interest in international business, increases the awareness of the limitations about the company’s resources and that it is a question of time before it leads to a re-define company’s global strategy. Companies that selected a wide, multinational mode of operation, for others, the standardized, narrow global approach may be more fit from a strategic efficiency view.

Koch (2001) and socks knitter both have same opinion that the global management efficiency requirement have an influence on the selection entry mode. Therefore, the empirical data collected matches with the theory.

5.5.5 Popularity of Individual MEMs in the Overseas Market

Socks Knitter said that they will be influenced by the experience, degree of success of the previous market entrants and the expected market situation as Koch (2001) says. So Socks Knitter said they are interested in knowing how their competitors are entering
foreign markets and how successfully or not it will be. They said that they are not imitating other companies’ entry mode, they also have their own strategic policies and thinking but to some extent they keep the competitors selection of entry mode into consideration while making choice of market entry mode.

According to Koch (2001) in some countries there is a huge attraction for specific market entry modes in specific industries. The new potential entrant’s selection of market entry mode will be affected by the experience, degree of success of the earlier entrants and the expected product market position. When a company have a good experience in a specific entry mode and when there is hope on increased demand and there is a steady business environment it will support the entry mode most popular. However companies that have successfully been using other entry modes in other markets may be trying an option to use the mode of entry that is common in the new market, if that would improve strategy match.

However Socks Knitter and Koch (2001) have the same opinion that companies get influenced by their competitors experience on past and current selection of entry mode. Socks Knitter confessed that they got influenced by the popularity of individual MEMs.

5.5.6 Target / Foreign Country Market Factors
Root (1994) commits that this is the one of the crucial factor which affects making a decision regarding market entry modes. So in this regard, Socks Knitter first made some research on that specific country’s market by themselves or through experts to check how the markets size and growth looks. Where there is a market with a large population and if the market is growing fast all factors and parameters are saying that Socks knitter should set up their own subsidiary, while in situations where the market is not big and the market growth and population size is growing but not to fast and the market still seems interesting then Socks Knitter enters the market through agents and local partners.

Root (1994) says ‘The size of the foreign country market has effect on the entry modes’. Where there is tiny markets, entry modes that have low break even sales volumes (indirect and agent/distributor exporting, licensing and some contractual arrangements) are appropriate. On the other hand, when considering markets with high sales potentials it is appropriate to work with entry modes which have high break even sales volumes (branch, subsidiary, exporting and equity investment in local production (ibid).

Socks Knitter and Root (1994) have the same opinion regarding the foreign countries market factor. Socks knitter says that the market growth and size of the market affects the selection of market entry mode. Company has the same opinion on this question, so we can see there is a connection between market entry mode selections.

5.5.7 Target / Foreign Country Environmental Factors
Socks Knitter says that political factors decide if the government in the foreign country will be in favor for foreign investment on their domestic market or not. Depending on the countries stand towards foreign investments, e.g. they give subsidies regarding foreign investment. Some well developed foreign companies create joint ventures together with
the home country companies then they will support foreign companies trying to enter their markets through subsidies.

According to Root (1994) economical, political and socio cultural factors of the foreign country can affect the selection of entry mode. The most important factor seems to be government policies and regulations. Strict import rules could be viewed in form of high tariffs and hardly regulated quotas, these set of laws complicates an export entry mode, and pushes the company to find other entry modes.

Socks Knitter agrees to the most with what Root (1994) have said regarding the environmental factors have influence on selection of market entry mode. The difference between what Root (1994) has said and what Socks knitter is saying, is that they do not agree on how the socio cultural distance have an impact on the choice of market entry mode. Therefore, it is hard to see any connection between the theory and respondent arguments.

5.6 CASE STUDY (II) RK INTERNATIONAL PVT. LTD

5.6.1 Industry feasibility/ viability of MEMs
RK international selection of entry mode is also affected by industry feasibility /viability in selection of certain entry modes. In this global village, there are many areas where it is used to see before entering in a market; e.g. in central Europe RK international works through agents, they have also been influenced by industry’s viability factor in Africa where black economy is in empowerment. So that’s why management tries to support black people to run their own business. Company tries to use them as agents as a substitute of their own subsidiaries.

As Koch (2001) says in some countries entry modes are forbidden e.g. subsidiaries & joint ventures. Some countries uses barriers like labor laws, lack of skills, which may restrict a company for making her own set up. By analyzing the Koch (2001) theory and RK International views we understand that there is a connection between Koch theory and RK international views about industry feasibility/ viability influence on the selections of entry mode.

5.6.2 Market Growth Rate
Koch (2001) argues that market growth has been used as a criterion while choosing entry mode, market growth plays an important role while making a decision to choose a specific entry mode. When a market has a high growth, the company has to take benefit of the occasion as speedy as possible and use indirect or direct exporting. If demand in market in a foreign country is forecasted to be large but only in short time setting up an own manufacturing/marketing subsidiaries may be a proper way.

RK international says while selecting entry mode market growth rate is important factor. They said in large markets with rapid growth they usually prefer to open up wholly owned subsidiary and in smaller markets with medium degree of growth they prefer to enter the markets indirectly through distributors and agents. Therefore, the theory and the
empirical data from the company are in the same line saying that market growth affects the selection of entry mode.

5.6.3 Image Support Requirements
RK International also said that image support requirement does not influence their strategy regarding market selection of entry mode. RK international is focusing on its strategic thinking and its core markets in international market so it has no market image requirements support that would affect the choice of market entry mode. But Koch (2001) theory differs with data for industries that demand companies to build and maintain image of leading global supplier.

Therefore the theory and the inspected empirical data does not lying on the same line. So RK does not consider the image support requirement factor while making their choice of entry mode.

5.6.4 Global Management Efficiency Requirements
RK international makes assessment regarding how they will try to increase their sales volume in a market and then examine and compare the costs to the forecasted revenues. If the cost is higher than the revenue, RK international does not enter that market. RK international try to enter that new market if the revenue is greater than the costs and also they consider the relationship between success that will be achieved and the time it will take to achieve the success through each entry mode, means RK international have to make a decision that which entry mode is most suitable, in usage of less recourses and the desired time into consideration, for the entry mode to reach success.

Koch (2001) said the growing interest in international business increase the awareness of the limitations about the company’s resources and re-defines the company’s strategy. Companies that have chosen a wide, multinational mode of operation, from others, the standardized, narrow global approach that may be more suitable, seen from a strategic efficiency perspective. Success elements and companies core capabilities must be inspected to find the most favorable organizational structure and strategy. Avoiding extreme diversity of the global market entry portfolio may be a good idea for most global companies. Economies of scale may come from that portfolio has to be studied. Organizational structures and strategies of all rivals have to be taken into consideration. Low participation is required from the company head office but some entry modes it may be another decision factor.

RK international and Koch (2001) agree that the global management efficiency requirement have an influence on the selection of market entry mode.

5.6.5 Popularity of Individual MEMs in the Overseas Market
RK international is immediately affected of the entry modes that are commonly used in their industry or by their competitors. No doubt RK international have their own plan and policies, but they also try to be aware of what the competitors do. But this will not lose their opportunities and become unknowing. However RK international said that sometimes it is very beneficial from them to select the same entry mode as their
competitors and believe this mode of entry is sufficient and lead to success and profitability in the future.

According to Koch (2001) in some countries markets there is a great charm for particular entry modes in particular industries. The new potential entrant’s selection of entry mode will be influenced by the experience, degree of success of the previous entrants and the expected product market situation. Often, when a company has a good experience in a particular entry mode and when there is hope on increased demand and there is a steady business environment, it will support the entry mode. However companies that have successfully been using other entry modes in other markets may want to try an alternative to the mode of entry common in the new market, if that would improve strategy match.

RK international’s choice of entry mode will be effected by the experience, degree of success of the previous extracts and that expected product market situation as presented by Koch (2001).

RK international got influenced but they have their own strategic policies that they follow; they do not copy what others consider in selecting entry mode. Both RK international and Koch (2001) agree that companies get influenced by their competitors experience and existing choice of entry mode.

5.6.6 Target / Foreign Country Market Factors
RK international agree with the theory presented by Root (1994) that foreign country market factors influence the selection of market entry mode. RK international try to focus on big markets that grows rapidly, in that case to start a wholly owned subsidiary is suitable from a geographical point of view where there are insanities and problem regarding payments and non trustable environment then company rely on distributors and agent.

Root (1994) says the size of the target market is affected by entry mode. Small market with low break even sales volumes use entry modes like (indirect exporting distributors/agents) licensing and contractual arrangements are suitable for market with high sales volume (subsidiary, branch exporting and investment in local production). Quality and accessibility of the local marketing infrastructure e.g. local distributors and agents are cooperating with other firms or if they do not exist then the exporting company has to research the market through a branch or subsidiary.

Analysis shows that foreign country market factors affect the selection of entry mode and also quality and security of agents also influence the selection of entry mode.

5.6.7 Target / Foreign Country Environmental Factors
RK says that economical, political and socio cultural factors affects on the decision regarding foreign entry mode. According to Root (1994) economical, political and socio cultural factors of the foreign country can affect the selection of entry mode. The most important factor seems to be government policies and regulations. Strict import rules
could be viewed in form of high tariffs and hardly regulated quotas, these set of laws complicates an export entry mode, and pushes the company to find other entry modes.

RK agrees to the most with what Root (1994) has said regarding the environmental factors have influence of the selection of market entry mode.

### 5.7 CROSS CASE ANALYSIS

#### (I) INTERNAL FACTORS INFLUENCING SELECTION OF MARKET ENTRY MODE

Cross case analysis showing internal factors influencing the selection of entry mode. Shows how internal factors affect the selection of entry mode. Both companies agree with each other, but at on Profit target, international experience is not agreed with each other. Both companies have their own views on the above mentioned factors. But both companies opposed the influence of management risk attitude on the selection of market entry mode.

#### Table I

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<thead>
<tr>
<th>Theory</th>
<th>Socks Knitter Pakistan</th>
<th>RK International</th>
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<td><strong>Company</strong></td>
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<td><strong>Internal Factors</strong></td>
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<td>Company Size/Resources</td>
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<td>Experience in Using MEMs</td>
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<td>Management Risk Attitudes</td>
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<td>International Experience</td>
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<td>Product</td>
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**Company size / Resources**

Koch (2001) states that the company size/resources affect the company’s choice of market entry mode. Smaller companies usually have fewer market servicing options as their very limited own resources may simply not allow, as discourage from, some market
entry modes. Sock Knitters and RK international have the limited resources so they are able to open their own subsidiaries and fulfill the requirements of entry mode. A number of resources personnel and communicative channels have made them able for MEMS. They know the important of size/resources when need of entering into new market.

**Experiences in Using MEMS**

Koch argues that the experiences in using individual MEMS depends upon experiences of a particular entry mode and that it influences the decision through the perceived use of a particular mode of entry.

Sock Knitter and RK international have the experience of a particular entry mode and it not only influences the decisions through the perceived use of a particular mode of entry but also affects the marketing. After the collection of empirical data form Socks Knitter and RK international and the theories quoted by Koch (2001) have in frequent that they have the same opinion with the theories. So consequently we can see the relationship between companies’ earlier experience of entry mode and its influences on future choices of entry mode.

**Management Risk Attitudes**

Our findings show that Socks Knitter shows the negative attitude towards this factor due to the financial recourses, and competitive environment. The Socks Knitter and Koch (2001) theory consider risk while making the selection of entry mode. RK international do believe risk is not any factor that influences their selection on mode of entry because the financial situation of the company, its strategic options, and its relative experience does not allow it to accept various international business risks.

This makes it very hard to see any connections between empirical data and previous research presented by Koch (2001).

**Profit Objective**

There is a contradiction between both company’s and Koch (2001) views, socks knitter clearly states that profit target does not influence the selection of entry mode while according to Koch (2001) the profit target influence the selection of entry mode. RK international says selection of entry mode also does not affected by profit objectives. Profit objective are decided depending on the business area. Each product and business area has got its own separate profit targets and there are also overall profit goals for the company even if the company is using agents or if it is a wholly owned subsidiary or both.

According to Koch (2001) the profit target will influence the selection of market entry mode; however that is not agreeable by the RK international empirical data is saying. However according to the Koch (2001) the profit target will affect the choice of market entry mode.
International Experience
Analysis shows that international experience is an important issue for Sock Knitter as well as for RK international. RK’s management is more risk gainer, and they think that they have more options available for entry mode. In the beginning of their export they face huge losses due to the lack of international experience. But with the passage of time they got the experience by doing their export activities, by learning their past experiences and also by analyzing their competitor’s strategies. So both respondents are agreeing that international experience is a factor that explains the level of firms has been active in internationally. Through good experience of international market, they can reduce their cost. Therefore we can see that respondent argument matches with the theory.

Product
According to the theory by Hollensen (2004) product characteristics influence the choice of entry market. The features of the product are very important for both companies. In analysis we found that it could affect the market entry mode, because the different product features could create complexities when entering a new international market. We found that the both companies are very much conscious for their product features.

Table #1 shows that both companies as well as research study by Hollensen (2004) tend to show that the products characteristics will affect the selection of entry mode.

(II) EXTERNAL FACTORS INFLUENCING SELECTION OF ENTRY MODE

Cross case analysis showing external factors influencing the selection of entry mode. The above table shows that how external factors have affected on two case studies Selection of entry modes, to the largest extent the researched companies agrees with each other regarding on which external factors that affects SMEs selection of market entry modes. In cross analysis the selected case studies will be compared. We give brief summary of two case studies to the reader. Through this analysis it will be easier for reader to develop understanding.

<table>
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<tr>
<th>External Factors</th>
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<td>Market growth rate</td>
<td>Validate</td>
<td>Validate</td>
</tr>
<tr>
<td>Image support requirements</td>
<td>Oppose</td>
<td>Oppose</td>
</tr>
</tbody>
</table>
Industry Feasibility / Viability of MEM
Sock Knitter and RK international are renowned companies. They have a good knowledge about labor cost reduction, technical know-how, dissemination of risk and skill is concerned. They also follow laws and regulations regarding as important factors in governmental sectors. Socks Knitter and RK international companies both know that industry feasibility/viability of MEM are important for them as well as established legal systems.

Market growth Rate
Sock Knitter and RK international fully use to be motivated according to the market growth rate. But they can handle it in the long run because to alter the export immediately is not an easy job for them. If market grows at a fast rate; the company also has to tap into this opportunity without any delay.

Image Support Requirement
Sock Knitter and RK international did not use the image support factor in the overseas market. Because they said that they currently focus on their market goals rather than image support requirements. Socks Knitter management said it is not a factor which can affect their choice of entry mode. Further they have the argument that their product is not very distinguished in the market. So therefore Socks Knitter and RK international do not get influenced by the image support requirement factor when choosing entry mode.

Global Management Efficiency Requirement
Both companies are very flexible and adaptable. And both agreed upon the global management efficiency requirement. The management points out that the global management efficiency requirements and competition in the world has made it more adaptable. So both choice of market entry mode is influenced by the global management efficiency requirements. According to Koch the growing interest in international business increase the awareness of the limitation about the company’s resources and it is
a question of time before it leads to re-definition of company’s global strategy. Therefore the data collected matches with the main concept.

**Popularity of Individual MEMS in the Overseas Market**

Socks Knitter and RK international’s choice of entry mode will be affected by the experience, degree of success of the previous extracts and that expected product market situation as presented by Koch (2001). They act from their strategic thinking and business policies. Koch said that the new potential extracts choice of entry mode will be influenced by the experience, degree of success of the previous extracts and the expected product market situation. So Socks Knitter, RK international and Koch agree that their competitors experience earlier and their current choice on selection mode will influence their companies’ market entry mode to some extent.

**Target / Foreign Country Market Factors**

Both companies agree with Root 1994 and other point of views, that present and projected size of the target country market is an important influence on the entry mode. RK international try to focus on big markets that grows rapidly in that case they indicated to start a wholly owned subsidiary is suitable for them. Analysis shows that foreign country markets factors affects the selection of entry mode and also add the fact quality and security agents also influence the selection of entry mode.

**Target / Foreign Country Environmental Factors**

According to the theory by Root (1994) environmental factors have a subterranea n influence while deciding the choice of entry market. According to management of RK political factors decide whether the government in the foreign country will favor them or not. If, the rules and regulations would be strict for any foreign company then it will be very difficult to gain the breakeven point. Socks Knitter has the opposite opinion in this regard.

The difference between what Root (1994) has said and what Socks Knitter is saying, is that they do not agree on how the socio cultural distance have an impact on the choice of market entry mode. But they still think that this is a considerable factor. So finally the management of Sock Knitter does not agree with what Root (1994) have said regarding the environmental factors to have influence on the selection of market entry mode.
Chapter 6

CONCLUSION

In this chapter the findings and conclusions of the study will be presented and in the final part of this chapter possible implications will be presented. The purpose of this study is to provide a deeper understanding of the factors that influence SMEs choice of foreign market entry methods. We will present here our conclusion along with implications for both company’s management, existing theory and at last implications for future research.

6.1 CONCLUSION

INTERNAL FACTORS

After doing the analysis in chapter five, we found that the Company size and resources affects the SME’s in a way that enable them to work towards implementing; strategies, policies and standards which are acceptable in the particular industry. So through this choice of entry mode SME’s does tend to initiate their internationalization through export before using more recourse intense market entry modes, such as wholly owned subsidiaries. More resource demanding entry modes such as wholly owned subsidiaries is most probably the best option when the company is large. In addition the theory and both companies argue that experience in using market entry modes affects their choice of entry modes. Socks Knitter and RK international as well as the theory discussed by Koch (2001) is saying that how many times, how recently and during which circumstances the particular market entry mode has been used, will influence company’s future choice of market entry mode. If the use of a successful entry mode will relatively close seen from a time perception, then the possibility to use it again will be high. Both companies argue that they can naturally influence their choice of entry modes. The theory states that management risk attitude should be less risk averse. When firm being financially sound or successful but we found that the size of the company may affect the willingness subject to the company for risk. Therefore, the management of the company might use scare resource committing market entry mode in order to legitimate or lessen the financial risk.

International experience is also a factor that influences the selection of market entry mode. Whereas this theory and both sample companies agree that deep knowledge about the market and creating likelihood for committing sufficient resources to international markets. When companies have more international experience, they rarely use resource demanding market entry modes such as wholly owned subsidiaries. Both companies argue that they do not select wholly owned subsidiaries or agents depending on the profit target. Thus, we conclude that profit target is not internal factors that affect the companies’ selection market entry mode. However, these sample companies disagree with the Koch (2001) theory. Our research study found that the influence of the product
features on selection of market entry mode seen as a crucial factor while making selection. Both the sample companies and the theory are arguing that product features such as quality value weight ratio are important.

Research found that despite the sample companies’ similarities regarding target markets and industry. The companies have different preferred market entry modes; both sample companies are profitable which leads to the conclusion that there is no one single effective entry mode but there are different ways of reaching goal. So, it is difficult to decide the right or wrong way to enter the new market. However, there is no right or wrong regarding the internal factors affecting the companies’ selection of entry mode. It is not only the company or the product that should be deciding which entry mode but current conditions regarding strategy, experience and the target market. However, internal factors can be controllable. It is concluded that the external factors will always exist and companies can do a bit to eliminate the effects of these factors to change their behavior keeping in view the world trade environment.

After discussing the influence of internal factors our conclusion sum up to the following.

- We found out that exporting mode of entry is best option at the beginning stage while selection of foreign entry mode for SMEs.
- The size and amount of resources restrict both companies while selecting their entry mode.
- Due to limited resources, smaller companies usually have fewer market servicing options.
- Our research showed, particular market entry mode will influence both companies future choice of market entry mode.
- They are also influenced by the historical experience while selecting foreign entry mode.
- According to our finding, profit target is not an internal factor which influences choice of entry mode.
- According to our research, choice of entry mode is influenced by the product characteristic such as weight, composition and refinement.

**EXTERNAL FACTORS**

During research study we found that different external factors have influence on the selection of market entry modes.

Our research study shows that Industry Feasibility/Viability of MEM motivates companies adapt the standard and policies that are acceptable in a specific industry. Both case study shows that where the government prohibits completely owned subsidiaries, companies use distributors and agents as market entry modes.

Our research study concludes that market growth rate is important. When the market is big, prosperous and speedy it is most suitable to use wholly owned subsidiary. We also found that when market size is small and grows between fast and slow. It is suitable to enter the market with distributors and agents.
We found during our research study at point of image support requirement. There is a contraction between the study companies and Koch (2001) theory.

Theory states there are industries that demands companies to build a status quo as a global supplier in the primary market but case studies are vice versa.

Research study found that popularity of individual market entry mode has influence on selection of market entry mode. Competitors have a significant influence in a market. As company have to compete and keep an eye on their competitors activities but the selection of entry mode base on their own plan and policies.

When the size of the market is big companies prefer wholly owned subsidiaries and when the market is small in size, Companies chose distributors and agents as indirect entry modes.

Research study shows that foreign country market factors have influence on selection of entry mode. SME, selection of market entry mode is influenced by the political conditions, economic and socio cultural factors in the foreign country, because government’s policies regarding investment have influence on entry mode. The economic situation in a country also influences SMEs, selection of entry mode

The following specific conclusions are drawn on external factors;

- Our study shows how industry feasibility move forward both companies to take up their choice of entry mode towards procedure and standards accepted in the meticulous industry.

- According to our research, we found out that image support requirement doesn’t influence their strategy for selection of entry mode.

- Both are influenced by the pace of the market growth while making their choice of foreign entry mode.

- According to our research both company’s consider their rivals choice of entry mode, but the base for selection for entry mode totally depends upon their own tactical judgments and their own strategies.

- We found out that their choice of entry mode is influenced by the political and economical factors in the targeted country. Because government’s regulations and policies affects the foreign investors while adopting the entry mode.
6.2 FINDINGS AND SUGGESTIONS

The research study has shown that internal and external factors influence SMEs, selection of market entry mode. However, there are some entry modes that according to theory stated in the conceptual framework are influencing the choice of entry mode but the empirical data do not agree on the statement. Therefore it is very important for the manager to be aware of the fact that what is stated in theory is not always the absolute truth.

- While making the selection of entry mode managers should consider socio cultural factors.
- Managers should keep in mind the importance of company size when selecting market entry modes.
- Managers should ignore image support requirements when making the selection of market entry mode.
- Managers should adapt the choice of entry mode towards the speed of market growth in overseas economies.
- Managers should not focus on profit targets when making the selection of market entry mode.
- Managers should keep in mind characteristics of product such as weight and packaging when making decision for entry mode.

6.3 FUTURE RESEARCH DIRECTIONS

Our research study has a limited focus on the internal and external factors that influence SMEs selection market entry mode. The research area is so vast and has space for future research on SMEs. Therefore we have the following suggestions for further study:

- Same research study should be done with greater number of cases to carry out a wider investigation in a larger pattern.
- Comparative research study of entry mode selection of SMEs from different developing countries.
- Examine the impact of internal and external factors on selection of entry mode on a non Pakistani company entering the Pakistani market.
- Investigate the relationships between market entry mode selection and company managerial characteristics.
APPENDIX 1

QUESTIONNAIRE
1-what is your name (Respondent) and title (position) in the company and for which department you are providing services? For how long you are serving for the company?
2-Do you have any prior experience in the related field?
3-When did company established? How many employees work in the company? What is average annual turnover of the company? And rivals in the local or domestic or international market?
4-In how many overseas countries company currently operate?
5-How you are active or energetic at the beginning in different countries? Do you export, have you established your own firms, do you have a joint venture or so on?
When companies enter into international market? Do you select exporting? Establish a factory, joint venture and Greenfield?
6-Why did you start business with exporting Mode of entry?
7-How and when your companies start internationalization process? How internal factors effect SMEs, the selection of entry mode in international market?
8-How does the company size matter?
9-How does the Management Risk attitude affect?
10-How international experiences effect the selection of market entry mode?
11-What is the importance of the product in selection of market entry mode?
12-Does the profit objective influence the market entry mode selection?
13-How do you see the Environmental factors foreign country market factors and industry feasibility/viability, as external factors?
14-What is the firm’s strategy when it comes to international expansion process with high growth rate and image support requirement?
15-How do you perceive global management efficiency as external factor?
16-How can matter socio cultural gap while selecting market entry mode for the company?
17- What conditions does the company have from the Pakistani government when it goes to trade?
18- How can the influence of internal & external factor in the selection of entry mode?
19-Which External / internal factor you consider when you choose entry mode and why do you choose them.
20-What do you consider most? Why not show?
   - Market barrier
   - Tax barrier
   - Exit barrier
   - Company factors that affect the selection of entry mode
   - Image support requirement
   - Global management efficiency
   - Foreign country market factor
   - Foreign country manually factors
   - Environmental factors
   - Domestic factors

1. Company size &resources
2. International experience management risk attitude market share profit
3. Product
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