Choices of Non-Equity Mode Versus Equity Mode for Multinational Companies in Thailand.

Preecha Wararatchai[1]

Wissawa Aunyawong[2]

Tommanee Sooksai[3]

Pornkiat Phakdeewongthep[4]

Sittiporn Rodpangwan[5]

Abstract

This research aims to understand the decision making of foreign entrepreneurs in choosing modes of foreign market entry in relation to the differences in cultural characteristics of the entrepreneurs, locations of the businesses, and the business experiences. The hypotheses were based on the differences in cultural characteristics of these entrepreneurs, locations of the businesses, and the business experiences affecting differences in decision making of foreign entrepreneurs in choosing modes of foreign market entry divided into Equity modes versus Non-Equity Modes. Convenience sampling was used for distribution the 100 questionnaires to international businesses in various industries, divided into 50 businesses located in Special Economic Zone or Costal areas and 50 businesses located outside Special Economic Zone or Costal area. The data was analyzed using multiple regressions.

The study found that the more entrepreneur value high power distance leads to the high tendency to use equity modes of foreign market entry. Moreover, it also found that the more entrepreneur value low uncertainty avoidance, compared with those who value high uncertainty avoidance, leads to the high tendency to use equity modes of foreign market entry. However, high business experiences and doing business in special economic zone or costal area are not the factors affecting entrepreneurs' decision to choose either non-entry modes or entry modes of foreign market entry. As a result, these findings support past research on the relationship between cultural dimensions and foreign market entry modes.

Keywords: Foreign Market Entry Modes, Cultural Dimensions, Resource-Based View, Special Economic Zone

1,2,3,4 College of Logistics and Supply Chain, Suan Sunandha Rajabhat University Email : preecha.wa@ssru.ac.th

5 Department of Development Strategy, Faculty of Humanities, Suratthani Rajabhat University

1.INTRODUCTION

1.1 Background and Significance of the Study

For the trends of international business today, Multinational Corporation or Multinational Company (MNC) or Transnational Company (TNC) has many choices to select the various modes in entering foreign markets (Hennart, 2009), especially in ASEAN countries due to the opening of ASEAN Economic Community. So, many successful foreign companies are now looking for doing their businesses in Thailand. Such companies, however, cannot ensure that it will be prosperous in Thailand due to the differences in terms of institutional and geographical backgrounds. Sometimes these differences cause the business problems. As a result, such firms are presumed that they are avoiding the business risks by exporting or doing contractual agreements. Nevertheless, such enterprises can be supposed that they are now attempting to do their businesses by themselves or finding the local partners. Keeping in context of the foreign market entry modes, the following research problems have been contrived to study in order to clearly understand the current situations and impose the foundation for further research as well.

Although there are many international business literatures relating with foreign market entry modes, it lacks of the evidence emphasized foreign market entry activities into Thailand under the emerging of ASEAN Economics Communities (AEC). Past literature have depicted that there were many factors affecting decision to choose the specific foreign market entry mode (Madhok, 1997; Tse, Pan, and Au, 1997). Consequently, this research provides the contribution on choice of foreign market entry mode of entrepreneurs in Thailand under the emerging of AEC.

1.2 Research Objectives

Because many successful foreign companies have different modes of foreign market entry depended on their own different characteristics, the objective of this research was to understand how entrepreneurs choose entry modes, comprising non-equity modes and equity modes. To accomplish this objective, related studies and literatures such as OLI Paradigm, Cultural Dimensions, and Resource Based View (RBV) are cautiously reviewed.

1.3 Scope of the Study

Hypotheses are designed and tested using the survey data collected in Bangkok in 2020. The research will definitely assist to

provide the new foreign businesses with useful implications for choosing foreign market entry modes.

2.LITERATURE REVIEW

This part consists of Hierarchical Foreign Market Entry Modes, OLI Framework, Geert Hofstede's Cultural Dimensions, and Resource-Based View Theory, which is the basis to generate the research conceptual framework, as shown in Figure 2.

2.1 The Hierarchical Foreign Market Entry Modes

Chu and Anderson (1992) stated that foreign market entry modes have been demonstrated in two main different methods. The first is to demonstrate as a range of cumulative stages of risk exposure, resource commitment, command, and turnover capability from export to fully owned subsidiaries. The second is to establish a foreign market entry mode as starting point in contradiction of which other entry modes are collated (Buckley and Casson, 1998). However, the entry modes can be viewed as hierarchical perspective as shown in Figure 1. (Ganesh, Kumar, and Subramaniam, 1997).
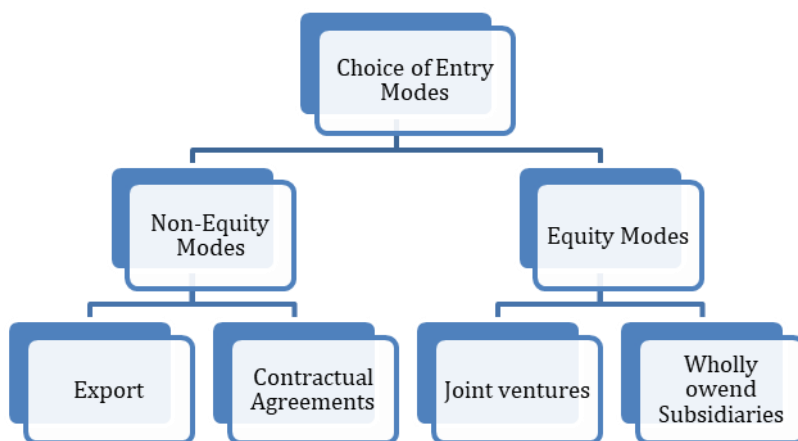

Figure 1 The hierarchical Foreign Markets Entry Modes

Source: Chu and Anderson, 1992.

2.2 OLI Framework

Dunning (1979) developed the eclectic paradigm or OLI Framework which is a famous internationalization theory in economics. OLI represents Ownership specific advantages, Location specific advantages, and Internalization advantages. These prospective foundations of advantage are described as follows.

First, ownership specific advantages denote the benefits of the foreign companies looking for involving investment in overseas, such as innovative skills (Gray, 2003), probable by involving in their alien manufacturing (Dunning, 2000). Second, location specific advantages denote the substitute countries, for engaging the value adding actions of Multinational Enterprises, such as low salaries (Gray, 2003), possibly by undertaking in foreign direct investment (Dunning, 2000). Third, Internalization advantages denote the advantages by individual manufacturing instead of making through a partnership agreement, for example, franchising or licensing (Twomey, 2000), possibly by avoiding permitting the entitlement to manufacture (Dunning, 2000). According to the OLI-model mentioned, this study focuses on Location specific advantage because Special Economic Development Zone (SEZs) policy designed by Thai government attracts international firms to locate their business in Thailand. Overseas firms will have some preferences from this policy (Board of Investment of Thailand, 2016). Some foreign companies, however, may need the advice from joint venture about such policy, whereas some may consider this policy as the chance to expand their subsidiaries. Then the following is hypothesized:

H1: The more entrepreneur do business inside SEZs, compared with those who do business outside SEZ/costal area, the high tendency to use equity modes of foreign market entry

2.3 Geert Hofstede's Cultural Dimensions

Hofstede theory defines the societal culture impact on its members' value, and how these values associate with manners, applying factor analysis to set up a structure. Geert Hofstede is the theorist developing this context.

In 1967-1973, Greet Hofstede established his inventive ideal as a consequence of factor analysis application to review the outcomes of a global investigation of worker values by International business management. In this study, the researcher applies the Power Distance Concept, as suggested by Hofstede, which are the degree to which the less powerful members of groups accept and expect that power is distributed unequally.

Alien businesses implementing equity foreign market modes exist in the host country on a continuous foundation. Numerous dealings with local firms are unavoidable. Frequently, these connections can barely be putted down as agreements.

They are required to be agreeable to operate with indigenous business as complications outward appearance. So, Hierarchical Logic will be beneficial (Makino and Neupert, 2000) Then the following is hypothesized:

> H2: The more entrepreneur value high power distance, compared with those who value low power distance, the high tendency to use equity modes of foreign market entry

Uncertainty avoidance, another cultural dimension studied by Hofstede (1994), defines how individuals in a country tackle unclear circumstances (Schneider and DeMeyer, 1991). High uncertainty avoidance cultures choose for inflexible manners, strategies, regulations, and commonly trust on fact, or the confidence that only fact commands the whole thing and persons recognize what it is. A lower uncertainty avoidance index demonstrates more recognition of opposing philosophies. Civilization has a tendency to execute fewer rules, vagueness is more familiarized to, and the surroundings are more flexible.

Home businesses with high uncertainty avoidance would be more thoughtful to diminish the uncertainty experience, when entering an overseas market. They possibly designate their actions in contractual method, and are less agreeable to changeable results (TSE, Pan and Au, 1997). Then the following is hypothesized:

> H3: The more entrepreneur value low uncertainty avoidance, compared with those who value high uncertainty avoidance, the high tendency to use equity modes of foreign market entry

2.4 Resource-Based View Theory

(Mahoney and Pandian, 1992; Peteraf, 1993). Barney (1991) proposed that valuable and productive resources, neither perfectly imitable nor substitutable, are disseminated across the companies. Thus, the foreign businesses probably need partnerships with local companies to ensure their success in business, when they get into new markets.

Goodrick and Salancik (1996) suggested that inexperience in a market makes efficiency-focused decision-making difficult. As a result, it leads entrepreneurs to choose equity modes for having high experience in host country's environments to support decision-making professionally. Then the following is hypothesized:

> H4: The more entrepreneur value high experience, compared with those who value low experience, the high tendency to use equity modes of foreign market entry
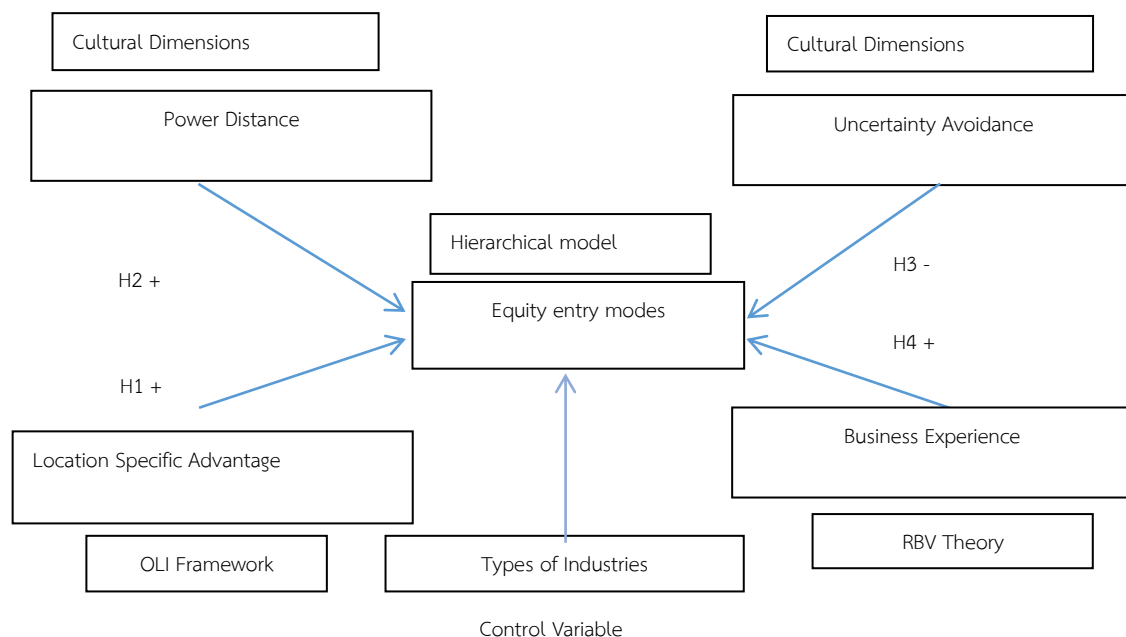
Figure2. Conceptual Framework

3. METHOD

3.1 Samples and data collection

Sample in this study was 100 international businesses in various industries, including agriculture and fishery, textile, cloth, and leatherwork, household goods, electric appliance and electronics, logistics, industrial estate, and tourism) in April 2020 and had profit revenues up to 1 million Baht per year. The researchers used convenience sampling and proportionate the participants into 50 businesses located in Special Economic Zone or Costal areas and 50 businesses located outside Special Economic Zone or Costal area. The respondents in each international business were contacted in person and were invited to reply the questionnaires.

3.2 Measures

Power Distance index or PDI and Uncertainty avoidance Index or UAI were measured in separated tables by the adjusted version of the scale previously used by previous researches. The scale was designed definitely to measure opinions about what extent respondents do in the several activities. All items were scored on five-point rating scale, ranging from 1 (strongly disagree) to 5 (strongly agree).

Another two main independent variables, location specific advantage and business experiences, were measured by descriptive statistics. Moreover, As this research focuses on firm-level measurement, the control variables in this study were types

of industries. Types of businesses were measured as a dummy variable.

3.3 Data analysis

Descriptive analysis of the empirical data disclosed that of 30 completed surveys. It was carried out employing by regression. The regression aims to learn more about the relationship between "several independent variables", including both main independent variable and control variable, and a dependent variable.

4. RESULT

Firstly, the result of KMO Measure of Sampling Adequacy is 0.770 (good if >0.7 and acceptable if >0.5). It indicates that a factor analysis probably useful with data gathered in this research. Moreover, the result of Bartlett's test of sphericity was statistically significant at level of 0.0001. It reflects good correlation matrix.

Validity test using Exploratory Factor Analysis (EFA) indicates that all question items can be grouped in to 5 factors. Factor 1, power distance, explains 19.696% of total variance. Factor 2, uncertainty avoidance, explains 38.333% of total variance. Factor 3, location specific advantage, explains 17.333% of total variance. Factor 4, business experience, explains 16.149% of total variance. Finally, Factor 5, entry mode, explains 12.119% of total variance. However, this study cannot exactly indicate good scale or validity or good scale validity because of small sample size. The question items belonging to the same

concept have low and high variation with one another.

Before performing the regression analysis, construct reliability and correlation were acceptable, as all Cronbach alphas coefficient exceed the widely suggested value of 0.7 and the relationships between main variables was discovered, in turn (Fornell and Larcker, 1981). Moreover, R squared was used in the research to denote the proportion of total variation of outcomes explained by the independent variable in the model. As the researcher use equity modes as dependent variable, R square is 0.976. It means that the regression model can explain about 97% of equity modes. R squared modified for the number of explanatory terms in a model or Adjusted R squared is 0.972. Then, the researchers investigate for multicollinearity using acceptable Variance Inflation Factor (VIF) indicators, which range from 2.345 to 5.033, as suggested by Hair et al (1995).

According to Hypothesis 1, *the more entrepreneur do business inside SEZ/costal area, compared with those who do business outside SEZ/costal area, the high tendency to use equity modes of foreign market entry.* The result depicts that the relationship between two variables is positive and statistically insignificant (β=0.082 for unstandardized coefficients and β=0.085 for standardized coefficients; p=0.087).As a result, the Hypothesis 1 cannot be supported.

According to Hypothesis 2, *the more entrepreneur value high power distance, compared with those who value low power distance, the high tendency to use equity modes of foreign market entry.* The result depicts that the relationship between two variables is positive and statistically insignificant (β=0.97 for unstandardized coefficients and β=0.15 for standardized coefficients; p=0.034). As a result, the Hypothesis 2 can be supported.

According to Hypothesis 3, *the more entrepreneur value low uncertainty avoidance, compared with those who value high uncertainty avoidance, the high tendency to use equity modes of foreign market entry.* The result depicts that the relationship between two variables is negative and statistically insignificant (β=-0.53 for unstandardized coefficients and β=-0.765 for standardized coefficients; p<0.001). As a result, the Hypothesis 3 can be supported.

According to Hypothesis 4, *the more entrepreneur value high experience, compared with those who value low experience, the high tendency to use equity modes of foreign market entry.* The result depicts that the relationship between two variables is positive and statistically insignificant (β=0.002 for unstandardized coefficients and β=0.040 for standardized coefficients; p=0.408). As a result, the Hypothesis 4 cannot be supported.

Additionally, the significant relationships between control variable (types of industry: agriculture and fishery, textile, cloth, and leatherwork, household goods, electric appliance and electronics, logistics, industrial estate, and tourism) and the tendency to use equity modes are found as the following.

According to dummy variables regression (dependent variable: equity modes application), the researcher selects one type of industries which is logistics as a benchmark. This type of industry will be omitted from the regression and use for comparison with other types of industry that are included in the regression. Beta of the constant used as a representative of the tendency to use equity modes of the type of industry that is omitted (logistics) is 2.085. There is only one result (logistics) is statistically supported (p-value<0.001). The results were found as the Figure 3.

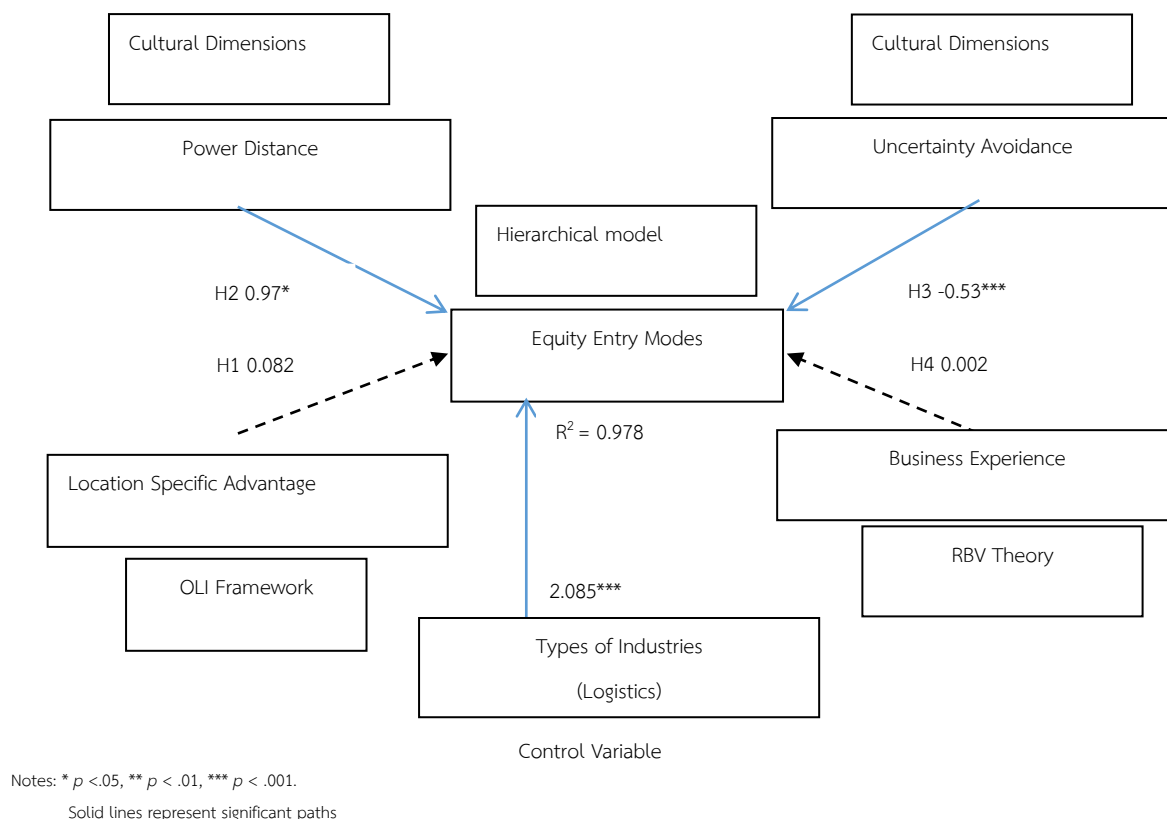**Figure 3.** Regression Results

5. DISCUSSION

This research aims to understand to understand how entrepreneurs choose foreign market entry modes divided into non-equity modes and equity modes. The main effect of entrepreneurs' decision, evidence strongly suggests that the more entrepreneur value high power distance leads to the high tendency to use equity modes of foreign market entry.   The evidence, moreover, strongly suggests that the more entrepreneur value low uncertainty avoidance leads to the high tendency to use equity modes of foreign market entry. On the other hand, high experiences and doing business in special

economic zone or costal area are not the factor affecting entrepreneurs' decision to choose either non-entry modes or entry modes of foreign market entry. For the context of special economic development zones, it could concern with no readiness in terms of infrastructure and international transportation (Department of Local Administration, 2016). There is the lacking of the speed of public transportation (Tirastittam and Waiyawuththanapoom, 2014). So, Special Economic Zone still does not attract foreign investor. As a result, these results provide support to previous literature regarding companies from a country with high power

distance will tend to choose equity modes when entering a foreign market (Makino and Neupert, 2000). These results also sustain earlier literature on the relationship between uncertainty avoidance and non-equity entry modes (TSE, Pan and Au, 1997).

The findings from this study offer additional contribution to research that emphasizes foreign market entry modes. Although previous studies focused on the role of cultural dimensions, location specific advantage, and resource based view affecting entrepreneurs' making decision to choose foreign market entry, the present study provides supplementary comprehension that the types of industries is also probably conditional role on their decisions as well. This study found that the specific type of industries, logistics, leads to the high tendency to use equity modes of foreign market entry, especially wholly owned subsidiary. This result reflects that Thai logistics Companies should prepare themselves for surviving in high competitive situation.

6. RECOMMENDATION

Future research that aims to investigate the impact of different types of industries excluded in this study, such as pharmaceutical production, ceramic, plastic, medical equipment, motor vehicles, and gem-and-jewelry. Future study, moreover, should consider some other cultural dimensions, including human resource factors, as

suggested by Phrapratanporn et al. (2019), as they could be main independent variables of the further research.

For limitations. First, as Thailand's government designed the policy in order to support foreign business in special economic zone in the specific period, future study should solve these problems by using longitudinal data or panel data collection because it will make the result of the study more reliable. Consequently, the further findings might fluctuate from these results as location specific advantage possibly affects entrepreneurs' making decision to choose non-equity or equity mode of foreign market entry. Second, due to the time limitation, the samples collected for this research arose from a few foreign businesses in Thailand. The generalizability of the findings is confined by excessively small sample size. Consequently, future research should gather data in a larger sample size. Finally, the questionnaire was not adjusted from research published in top journals.

7. REFERENCES LIST

Barney, J. (1991). Firm resources and sustained competitive advantage. **Journal of Management**, 17(1), 99-120.

Board of Investment of Thailand. (2016). Investment in special economic development zones. Retrieved May 25, 2016, from http://www.boi.go.th/upload/content/BOI-book%202015_20150818_95385.pdf

Buckley, P.J. and Casson, M. (1998). Analyzing foreign market entry strategies: extending the internalization approach. **Journal of International Business Studies**, 29(3), 539-561.

Bundit Phrapratanporn, Preecha Wararatchai, Wissawa Aunyawong, and Nik Ramli Nik Abdul Rashid. (2019). Enhancing supply chain performance of SMEs in Thailand using the integrated personnel development model. **International Journal of Supply Chain Management**, 8(5), 176-186.

Chu, W. and Anderson, E. M. (1992). Capturing ordinal properties of categorical dependentvariables: A review with application to modes of foreign entry. **International Journal of Research in Marketing**. 9(2), 149-160.

Department of Local Administration. (2016). Problems or Obstacles of Special Economic Zone in the present day. Retrieved May 20, 2016, from http://www.wiangphangkham.go.th/images/column_1431354069/218.pdf

Dunning, J. H. (1979). Toward an eclectic theory of international production: some empirical tests. **Journal of International Business Studies**, 11(1), 9–31.

Dunning, John H. 2004. The eclectic paradigm as an envelope for economic and business theories of MNE activity. **Journal of International Business Review**, 9(2), 163-190.

Ganesh, J., Kumar, V. and Subramaniam, V. (1997. Learning effect in multinational diffusion of consumer durables: An exploratory investigation. **Journal of the Academy of Marketing Science Summer**, 25(3), 214-228.

Goodrick, E. and Salancik, G. R. (1996). Organizational discretion in responding toinstitutional practices: hospitals and cesarean births. **Administrative Science Quarterly**, 41(1), 1-28.

Gray, H. P. (2003). **Extending the eclectic paradigm in international business: essays in honor of john dunning**. Massachusetts: Edward Elga.

Hennart, J. (2009). Down with MNE-centric theories! Market entry and expansion as the bundling of MNE and local assets. **Journal of International Business Studies**, 40(9), 1432-1454.

Hoefstede, G. (1994). Management scientists are human. **Management Science**, 40(1), 4-13.

Madhok, A. (1997). Cost, Value and foreign market entry modes: The transaction and the firm. **Strategic Management Journal**, 18, 39-16.

Mahoney, J. T. and Pandian, J. R. (1992). The resource-based view within the conversation of strategic management. **Strategic Management Journal**, 13(5), 363-380.

Makino, S. and Neupert, K.E. (2000). National Culture, Transaction Costs, and the

Choice betweenJointVenture and Wholly Owned Subsidiary. **Journal of International Business Studies**, 31(4), 705-713.

Peteraf, M. A. (1995). The cornerstones of competitive advantage: A resource-based view. **Strategic Management Journal**, 14(3), 179-191.

Schneider, S. C. and De Meyer, A. (1991). Interpreting and responding to strategic issues: The impact of national culture. **Strategic Management Journal**, 12(4), 307-320.

Pimploi Tirastittam and Phuttiwat Waiyawuththanapoom. (2014). Public transport planning system by dijkstra algorithm: case study bangkok metropolitan area. **International Journal of Social, Behavioral, Educational, Economic, Business and Industrial Engineering**, 8(1), 54-59.

Tse, D. K., Pan, Y. and Au, Kevin Y. (1997). How MNCs choose entry modes and form alliances: The China experience. **Journal of International Business Studies**, 28(4), 779–805.

Twomey, M. J. (2000). **A Century of foreign investment in the third world**. New York: Routledge.

Wennekers, S., Thurik, R., Stel, A. van and Noorderhaven, N. (2007). Uncertainty avoidance and the rate of business ownership across 21 OECD countries, 1976–2004. **Journal of Evolutionary Economics,** 17(2), 133-160.

Yoo, B., Donthu, N. and Lenartowicz, T. (2011). Measuring Hofstede's five dimensions of cultural values at the individual level: development and validation of CVSCALE. **Journal of International Consumer Marketing,** 23(3), 193-210.