



A Contingency Framework for the Mode of Entry Decision

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The extant literature on the choice of entry modes into international markets has assumed that the mode of entry is a single stage rational analytic decision by the manager. A contingency framework for the mode of entry decision which accommodates alternative decision strategies is presented. As a part of the contingency framework, a strategy—rational analytic—used by past researchers and an alternative strategy of decision making—cybernetic—are discussed. Each decision strategy has its own merits and disadvantages. An outcome of the cybernetic strategy is an hierarchical model for the mode of entry decision. Implications of the alternative strategies for the mode of entry decision are also provided.

With a significantly large number of countries welcoming foreign investment and an increasing number of firms implementing global strategies, the nature of international business is undergoing dramatic transformation. Factors such as severe domestic competition, lesser lead times for innovation and the high cost of new product development have led firms to consider entering new markets as a viable growth strategy. Hence, there has been a rapid increase in the number of companies trying to enter foreign markets.

Yip, Loewe and Yoshino (1988) offer a set of guidelines for entering global markets. When a firm decides to expand internationally it has to choose the foreign market it wants to operate in. The market selection decision involves choosing the best country market to enter based on the strategic needs and orientation of the firm (Papadopoulos, 1988; Kumar, Stam & Joachimsthaler, 1994). Once the firm has decided to enter a foreign market it has to determine the nature of its operations in the foreign market.

The nature of the firm's operations in the country market depends on its choice of mode of entry. A mode of entry is an institutional arrangement chosen by the firm to operate in the foreign market. This decision is one of the most critical strategic decisions for the firm. It affects all the future decisions

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and operations of the firm in that country market. Since each mode of entry entails a concomitant level of resource commitment, it is difficult to change from one entry mode to another without considerable loss of time and money (Root, 1994).

Firms have adopted a number of different modes to enter foreign markets. They have been classified based on their risk, return characteristics and the degree of control the mode provides the entrant (Anderson & Gatignon, 1986). The different modes of entry have been classified into Exporting, Contractual Agreements, Joint Ventures, Acquisitions, and Greenfield Investments. Exporting involves only the physical transfer of goods from the firm to the foreign market with or without an agent in exchange for the value of the goods in monetary terms. Contractual Agreement is a binding contract between the firm and an agent to produce and distribute the goods in the foreign market in return for some form of economic rents. A Joint Venture is the pooling of assets and (or) knowledge by two or more firms who share joint ownership and control over the results of the pooling. Note, that this definition includes both Joint Ventures and strategic alliances as defined in the traditional sense. Acquisition refers to the purchase of stock in an already existing company in an amount sufficient to exercise control. Greenfield Investment is a start up investment in new facilities in the foreign market.

The choice of mode of entry is essentially a decision made by a manager or a team of managers. An assessment of the extant literature on this decision reveals the following:

- Past research in this area has assumed that managers make the choice of the mode of entry using a rational analytical process. This assumption of rational decision making is based on a rich tradition of economic theory. But a lot of work in organizational decision theory and social psychology indicates that a number of ill defined, complex decisions cannot be adequately explained by the rational analytic model (Janis, 1972; March & Olsen, 1976). Alternative decision making strategies such as elimination by aspects (Tversky, 1972), cybernetic strategy (Steinbruner, 1974) etc., have been proposed to overcome the limitations of the rational analytical process. But researchers in the international area have largely ignored these alternative decision theories. These alternative decision making paradigms can be used to add richness to our existing knowledge.
- There has also been an inherent bias in the mode of entry literature towards large multinational corporations. The paucity of research based on small to medium sized businesses is rather surprising, given that there has been an increasing trend towards internationalizing among the small businesses and many of them lack the expertise or knowledge to operate in foreign markets.
- Past studies have studied country selection process and mode of entry decision separately. Many large firms may already be operating in foreign markets and entry decisions may not be that critical as for smaller firms. For small to medium size busi-

nesses who have not yet entered international markets, entry decisions constitute a critical first step on the path to internationalization (Douglas & Craig, 1992). In other words, the selection of an entry strategy may be inter-linked with the choice of the country and the number of countries. The existing literature has not devoted much attention to evaluating market selection and mode of entry as an inter-dependent decision (Lei & Cavusgil, 1991).

It has been assumed in the literature that managers of firms have unlimited time and monetary resources to gather the required information to make an optimal, rational decision. But there are many instances when managers are faced with constraints that prevents them from undertaking an elaborate information search necessary for arriving at an optimal decision (Wright, 1976). Past research on the mode of entry decision does not offer any insights into decision making under such constrained situations. The objective of this paper is to propose a contingency framework that accommodates alternative strategies which can be used under constrained situations for studying the mode of entry decisions. Further, the proposed framework should facilitate the study of the decision making process of small to medium sized businesses. Finally, we draw some implications based on this framework. So, first, a brief review of the literature on the mode of entry decision is provided, then the contingency theory is explained, two alternative decision strategies are examined, and the implications of this frame-

work for future researchers in this area and for managers are discussed.

LITERATURE REVIEW

A rich theoretical tradition exists in the international business literature that can be drawn to explain the choice of mode of entry. The entire research in this area is based on the assumption that the manager is a rational, optimizing decision maker because of its roots in the international economics literature. The monopolistic advantage theory of foreign direct investment proposed by Hymer (1960) and extended by Kindleberger (1969) asserts that the MNC possesses a rent yielding asset which gives it an edge in competing with firms both in the home market, as well as with the indigenous firms abroad. This gives rise to the notion of the "ownership advantage" of the MNC. The choice of a mode of entry depends upon the nature of the "ownership advantage" the firm possesses. Vernon (1971), Stopford and Wells (1972), and Franko (1971) have focused on the "location advantage" of the host country to explain differential foreign investment in different country markets. The "location" stream posited that the host country has certain specific locational advantages which leads to its selection as a location for the MNC subsidiary. The firm would choose different modes of entry based on the "locational characteristics" of that country. Buckley and Casson (1976) used the transaction cost theory to explain foreign direct investment. In their theory of Internalization they proposed that a MNC would internalize its

activities in a foreign country if the cost of internalization was lesser than exporting or other contractual agreements. Dunning (1980) combined all the three streams in his "Eclectic Paradigm of International Production." According to his OLI (Ownership, Location, Internalization) framework the nature of the firm's business in the foreign market is determined by all the three factors (OLI).

Another research stream that developed at the same time explained the choice of mode of entry as an outcome of a power struggle between the MNC and the government of the host country. The interaction between the host government and the MNC is characterized by a power struggle. The source of bargaining power for the MNC is the "ownership advantage" that it possesses. The source of bargaining power for the host government lies in its ability to control the access to its market. Fagre and Wells (1982), Lecraw (1984), Gomes-Casseres (1990) have examined the factors that predict the form of entry mode based on the relative power between the MNC and the host government.

Recent research in this area has drawn heavily on the transaction cost literature (Anderson & Gatignon, 1986; Kogut & Singh, 1988). According to this perspective, the entry mode a firm will choose is the one which results in the least transaction cost. Hill, Hwang and Kim (1990) proposed an eclectic theory for mode of entry in which they tried to integrate the various factors that affect the mode of entry decision in one single framework. We have attempted to classify past research into four categories—entry mode studied, theory

used, source of data and the factors hypothesized to affect choice of mode of entry. Table 1 offers a comprehensive snapshot of the literature in this area. These studies reveal that there have been a variety of entry modes that have been compared in the literature. Moreover, a large number of factors have been hypothesized to explain the choice of mode of entry.

The decision on how to conduct business in a foreign country depends not only on various factors, many of which have been studied in the past literature, but also on the time and resource constraints that the manager faces when he/she makes the decision. Let us consider the scenario of a manager of a small to medium sized company which is considering opening operations in China. If the manager has surplus time and resources, which is seldom the case, and if his/her objective is to convince others in the organization of the merits of his decision, then he/she will try and make a decision that is rational and optimal. But if the manager does not have enough money or the time to conduct a full fledged market feasibility study then he/she cannot make an optimal decision because he/she does not have information on all the factors. Instead of using some elaborate, formal methods of analysis the manager may simplify the decision task using some heuristic. He/she may decide to export to China, even though a Joint Venture may be the optimal choice because he/she does not have enough information. Hence the resource and time constraints for making the decision itself may lead a manager to suboptimize.

Table 1
An Assessment of the Choice of
Mode of Entry Literature

Study By	Entry Modes Studied	Theory Used	Source of Data ^a	Factors Hypothesized to Affect Choice of Mode of Entry
Wilson (1980)	Acquisitions, Newly formed subsidiary	Motivation for Investment	Secondary data	Experience, Ratio of LDC subsidiaries to total subsidiaries, Ratio of subsidiaries before 1960 to total subsidiaries, Nationality of the parent.
Fagre & Wells (1982)	Level of ownership in the subsidiary	Bargaining Power	Secondary data	R&D Expenditure, Level of advertising, Asset size, Intrasystem transfers, Exports, Product diversity.
Lecraw (1984)	Level of equity ownership	OLI, Bargaining Power	153 subsidiaries of transnational corporations based in US	Technological leadership, Advertising intensity, Subsidiary assets, Capital/Output, Exports/Sales, TNC assets, TNC-subsidiary linkages, Host country attractiveness, Potential TNC investors, Nationality of the TNC, Time.
Contractor (1984)	Direct Investment, Licensing	Ownership Advantage Theory	Secondary data	Research personnel per 100,000 people, R&D expenditure in the host country, Per capita GDP, Extent of government intervention, Investment environment, Incentives for investments, Percentage of manufacturing in GDP, patents in force, Direct investment position, R&D expenditure per firm in the industry, R&D engineers and scientists per firm, Number of managerial employees, Assets, R&D scientists and engineers in the industry, R&D expenditure of US parents.
Anderson & Gatignon (1986)	Modes offering greater control Vs those offering lesser control	Transactions Cost Theory	—	Type of product, Stage in the PLC, External uncertainty, Internal uncertainty, Socio-cultural distance, Size of foreign business community in the host country, Value of brand name.
Kogut & Singh (1988)	Acquisitions, Joint Ventures, Greenfield Investments	Transaction Costs Theory and Psychic Distance	Secondary data	Diversification, Country experience, Multinational experience, Asset size, R&D spending, Advertising spending, Cultural distance and Uncertainty Avoidance.

continued

**Table 1
Continued**

Study By	Entry Modes Studied	Theory Used	Source of Data^a	Factors Hypothesized to Affect Choice of Mode of Entry
Gomes-Casseres (1990)	Joint Venture, Wholly Owned Subsidiary	Bargaining Power	Secondary data	MNEs in the industry, GDP growth of the host, Nature of host government, R&D expenses, Number of foreign manufacturing subsidiaries, Amount of sales within the intrasystem, Type of product, Industrial GNP of host country, familiarity with the host, Parent and subsidiary asset size.
Contractor (1990)	Contractual, Cooperative forms of entry	OLI and Transactions Cost Theory	—	Negotiations and Contractual factors, Organizational factors, End product-market characteristics, technology transfer factors, Investment and risk conditions.
Hill, Hwang & Kim (1990)	Licensing, Joint Venturing, Wholly Owned Subsidiary	OLI	—	Extent of national differences, Extent of scale economies, Global concentration, Country risk, Local familiarity, Demand conditions, Volatility of competition, Value of firm-specific know-how, Tacit nature of know-how
Kim & Hwang (1992)	Licensing, Joint Ventures, Wholly owned subsidiary	Perlmutter's Orientation of Firms and OLI	629 US based multinationals	Global concentration, Global synergies, Global strategic motivations, Country risk, Location Unfamiliarity, Demand uncertainty, Competition intensity, Value of firm-specific know-how, Tacit nature of know-how.
Agarwal & Ramaswami (1992)	No involvement, Exporting, Joint Venture, Sole Venture, Licensing	OLI	536 leasing companies with international operations	Firm size, MNE experience, Ability to develop different products, Market potential, Investment risk, Contractual risk.
Kwon & Konopa (1993)	Foreign production Vs Exporting	Internalization	134 firms selling the same product in tow separate foreign markets	Level of tariff barriers, Level of expropriation, Level of foreign ownership restrictions, Local currency convertibility, Level of local content requirements, Level of unionization, Language similarity, Size of target market, Economic growth/performance.

continued

**Table 1
Continued**

Study By	Entry Modes Studied	Theory Used	Source of Data ^a	Factors Hypothesized to Affect Choice of Mode of Entry
Eramilli & Rao (1993)	Wholly owned operations, Joint Ventures, Contractual transfers	Transaction Costs theory	175 service firms	Asset specificity, Capital intensity, Inseparability, Cultural distance, Country risk, Size of the firm.
Hagedoorn & Narula (1996)	Equity Sharing vs. Contractual nonequity alliances	Literature on Joint Ventures	Secondary data	Degree of technological intensity of the industry, Level of technological advancement in the country

Note: a. Conceptual papers are indicated by “—”.

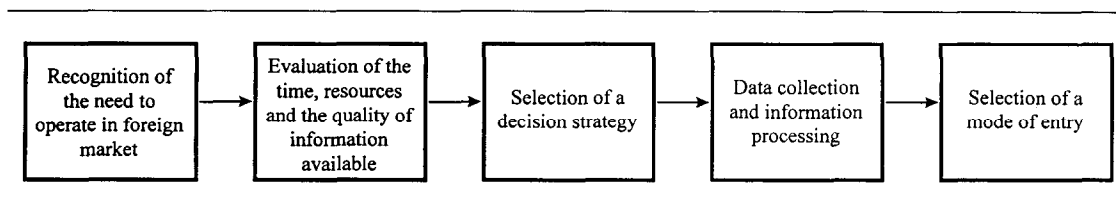
Many of the strategies used for decision making are suboptimal (Slovic, Fischhoff & Lichtenstein, 1977) and a substantial amount of research has been devoted to improve the effectiveness of decision making. The past literature on the mode of entry has not examined decision making under these kinds of scenarios because they assume that managers always have enough time and resources to make an informed, rational choice. We address this gap by developing a contingency model of decision making which allows us to consider alternative strategies in the mode of entry area, in the next section.

CONTINGENCY THEORY OF DECISION MAKING

The contingency model of decision making consists of a series of stages (Beach & Mitchell, 1978). Figure 1 shows the framework employed in the contingency model of mode of entry decision and can be conceptualized as follows:

The first stage involves problem recognition, where the problem defined as a discrepancy between the desired state and the current state is identified. In the mode of entry context, the desired state is to have a profitable operation in the foreign country. Once the problem has

**Figure 1
A Contingency Model of Mode of Entry Decision**



been identified then the decision maker proceeds to the next stage which is evaluating the task. In evaluating the requirements for the mode of entry problem the manager asks such questions as "What factors that affect the modes of entry have to be considered?" and "Where can information on these factors be obtained from?" and "How much is it going to cost to get this information?" In the third stage, a decision strategy is selected to solve the problem. Beach and Mitchell identify categories of decision strategies running from analytic strategies such as maximization of expected utility to nonanalytic strategies such as flipping a coin or just repeating a previous response. The range differs primarily on two dimensions: (a) the amount of resources required to use each strategy and (b) the ability of each strategy to produce an "accurate" response. In the fourth stage, the manager collects and processes information consistent with the strategy he/she has selected. Some strategies may involve elaborate and costly information collection and processing while some may be based on simple heuristics. The final stage of this process is the actual decision choice as to which mode of entry to use when entering the foreign market.

While all the stages are of potential interest, the discussion that follows is limited to selection of decision strategies since the central concern of this paper is to propose a framework of alternative strategies that can be used to offer a better understanding of decision making by managers under constrained circumstances. The idea of strategy selection as a higher level decision problem involving consideration of costs and

benefits provides an appealing framework for considering task efforts and contingent processing behavior (Payne, 1978). In particular, the framework maintains an assumption of rationality on the part of the decision maker. In other words, the observed use of a sub-optimal decision role can be seen as the result of a rational cost/benefit approach to strategy selection (Christensen-Szalanski, 1980).

The choice of a decision strategy is also contingent upon the characteristics of the decision maker and the characteristics of the decision task (Beach & Mitchell, 1978). Further, the choice of a decision strategy is dependent on the manager's prior expectation of the quality of information he/she can obtain. If the manager does not expect to obtain accurate, reliable and valid information then he/she will choose a decision strategy that will require lesser information gathering and processing. Since strategy selection is a subjective process, the influence of the decision task characteristics on it is mediated by the decision maker's perception of those characteristics. Thus, while it is not possible to entirely disentangle task characteristics and decision maker characteristics, it is possible to separate them conceptually. This can be done by defining task characteristics as the decision maker's interpretations of the demands and constraints of the specific task at hand and by defining decision maker characteristics as enduring aspects of the decision maker that are not task specific. In other words, why a manager would choose one strategy that requires much analysis and the investment of a great deal of time and energy depends on the charac-

teristics of the task and the decision maker. Although Beach and Mitchell provide a discussion of the factors that affect the choice of a decision strategy, we address next, those factors in the context of mode of entry into foreign markets.

CHARACTERISTICS OF THE DECISION MAKER

The characteristics of the decision maker will influence the choice of the decision strategy employed. A manager's knowledge, ability and motivation will affect the amount of information processing he/she is willing to perform for the mode of entry decision. Depending on the amount of information he/she plans to acquire and use, his decision strategy will vary. Personality variables (e.g., risk averseness) that might play a role are not discussed because there is very little reliable data that relates personality characteristics to specific decision strategies. Moreover, personality variables may affect the final choice of a particular mode but not the selection of decision strategies.

1. Knowledge. The decision maker's knowledge of the available strategies and their relative promise of success affects his/her choice of the decision strategy. Usually, elaborate and formal decision strategies are only available through training; most of other strategies are through experience. Hence managers using a formal strategy, should be capable of processing all the information to arrive at an optimal

solution. They should be well trained and educated or should have the services of a trained specialist. Managers who do not possess such sophisticated training or the services of a specialist will resort to strategies that will simplify the decision task.

2. Ability. Even if the decision maker possesses the knowledge of the decision strategy, he/she may not use the decision strategy if he/she lacks the ability that is required for the successful execution of the strategy. The more intelligent and analytical the manager is, the easier it should be to use formal rather than informal strategies (Schroder, Driver & Streufert, 1967). A manager who lacks the ability must use more of his or her personal resources of time and effort and therefore can be expected to be less willing to select strategies with high personal requirements.

3. Motivation. There is always an inherent need to make a decision as quickly as possible when there is an unresolved problem. The pressure to decide, to get the matter settled and to cease working on it is often a powerful motivator for selecting the fastest and the easiest strategies within reason. This need for a quick resolution is counterbalanced by the need for caution and circumspection imposed because of accountability (both personal and external). Hence a manager would try to decide as quickly as possible within the parameters he/she can operate. Hence in an environment where accountability is less, a manager will choose a strategy which will lead to a quicker decision.

CHARACTERISTICS OF THE MODE OF ENTRY DECISION TASK

The characteristics of the decision task also affects the choice of a decision strategy. A simple, well defined decision task can be easily resolved by using simple strategies that involve very little information processing and no formal rules. On the other hand, decision strategies for complicated ill-defined decision tasks may involve varying degrees of information processing and formal rules. In order to choose amongst the different decision strategies, the decision maker has to have a clear idea as to the nature of the decision problem and the decision environment. He/ she can then choose among the various strategies.

The Decision Problem

A decision problem typically deals with the number of possible alternative courses of action that have to be considered. Each of these courses of action can be differentially affected by many characteristics of the decision problem itself. Though there are a number of characteristics that can differentiate among decisions only a few of the characteristics that are important for selection of a strategy is presented below.

1. *Unfamiliarity.* Unfamiliarity is the degree to which the decision problem is foreign to the decision maker. Past experience with the same or similar problems can provide either a specific strategy that has been used successfully before or can rule out unsuccessful strategies. Many managers in small and medium sized companies

are unfamiliar with the mode of entry decision. They may not have the requisite experience that many of the multinational corporation managers will have in making this decision.

2. *Ambiguity.* Ambiguity is the degree to which the problem is unclear to the decision maker. This includes the ambiguity of the goals, decision alternatives, constraints etc., as well as the unavailability, unreliability and imprecision of relevant information. Even though the goal of any strategic initiative is to make a profit, it is always unclear as to how to achieve it. There is always ambiguity associated with strategic decisions like the choice amongst various modes of entry because of the long time horizon associated with the decision. The information from many countries are also not reliable and accurate because their data collection efforts are not very scientific. Hence there is a lot of ambiguity regarding the mode of entry decision.

3. *Complexity.* Complexity is the number of different components that a decision problem possesses. The number of alternatives to be considered (Olshavsky, 1979), the amount of relevant information to be considered (Jacoby, Speller & Kohn, 1974), the number of criteria on which the decision will be judged and the degree to which the problem will influence future decisions are all some of the components that contribute to the complexity of the decision task. Further, time pressure can accentuate the complexity of the task (Hogarth, 1981). The number of factors that have to be taken into consideration in order to choose a mode of entry makes it a very complex decision.

Moreover, this choice will determine the future operations of the firm in that country, and influences all the future decisions that are made when operating in that country.

4. *Instability.* Instability is the degree to which the criteria, goals and constraints of the problem change and their unpredictability during and after the decision. The mode of entry decision is a very unstable decision because there is a lot of uncertainty and unpredictability in the host country environment which the decision maker may not have information about.

The Decision Environment

The strategy selection is also influenced by the general, situational factors regarding the decision task environment. The factors described in this study have largely been ignored in the literature. Additionally, the environmental factors are dynamic and therefore, every time a decision has to be made on a strategy selection, certain critical factors have to be considered. They are:

1. *Irreversibility.* In many cases the decision maker can make the decision, monitor its effects and reverse the decision if things do not happen as expected. But when resources have been committed based on the decision then it is costly to reverse the decision. The mode of entry decision is a decision that will be costly to reverse because the firm has to commit a certain amount of resources in order to operate under that particular mode.

2. *Significance.* The significance of the decision is determined by the magni-

tudes of the outcomes involved and the breadth of the decision's ramifications. The mode of entry decision is usually a very significant decision because it involves a large commitment from the firm and it affects all the future strategic decisions of the firm not only in that host country but also in other areas.

3. *Accountability.* Accountability is the degree to which the decision maker is accountable for the results of the decision. Accountability for managerial decisions have been increasing in the recent years. The mode of entry decision is a crucial strategic decision that will have a profound impact on the operations of the firm. Hence the managers who make the decision are accountable to all the stakeholders of the firm.

It is clear from the above discussion that the mode of entry decision is a complex, ill-defined, irreversible and a significant decision for the firm entering a foreign market. The key characteristic of such a decision is the uncertainty associated with the outcomes of the decision. Most of the research on responses to complex, ill-defined decision problems take some uncertainty reduction model as a point of departure. In the next section two strategies that deal with ill-defined decision problems are discussed.

DECISION STRATEGIES

Managers use a variety of strategies to make decisions. A decision strategy consists of: (a) a set of procedures that the decision maker engages in when attempting to select among alternative

courses of action and (b) a decision rule that indicates how the results of the engaged-in procedures will be used to make the actual decision. Though there are a number of decision strategies that have been studied in the literature, two strategies that are relevant for ill-defined decision problems are the rational analytic model, and the cybernetic model (Lindzey & Aronson, 1985). Both strategies are discussed below.

Rational Analytic Strategy

These strategies require the decision maker to apply a prescribed procedure utilizing tools such as pencil and paper, mathematics, calculator or computer etc., in a guided, systematic attempt to analyze the decision and evaluate its components. These strategies always require training or invention, and the assistance of a technician (methodologist or programmer). All normative decision models that are considered optimal belong to this category. This category of decision strategies also contain many complex procedures that may or may not be optimal but are formalized, prescriptive approaches to immensely complicated and information laden decisions. Many complex forecasting models fall into this category.

Rational analytic strategies are regarded as the ones that are most likely to yield correct decisions even if they may not actually lead to the correct choice. The explicitness and the prescriptive nature of these strategies make them defensible and give the impression of thoroughness and logical rigor. Hence managers who operate in an

environment where accountability (publicly reporting companies) is very important will use rational analytical strategies to justify their decisions. Typically, entrepreneurs operating in less accountable environments such as a small business firms will tend to use less formal and less elaborate strategies.

Cybernetic Strategy

The cybernetic strategy of decision making draws heavily from the "satisficing" model proposed by Simon (1955). According to Simon, the human brain does not always try to obtain a rational solution to a problem by considering all the alternatives and optimizing, since it has a limited analytical capability. Hence when confronted with a complex problem the "limited" human brain "satisfices" rather than optimize. Steinbruner (1974) combined the notions of satisficing and models cognitive processes to propound the cybernetic model of decision making. The cybernetic decision maker decomposes the problem and the environment into stable subsystems. The variety inherent in the decision problem is eliminated by ignoring it. Only a small set of critical variables are monitored and the final decision is made by a sequential process based on some heuristic. A number of complex organizational and political decisions can be characterized by this strategy. Steinbruner offers the Defense Department budgeting decisions and nuclear sharing within NATO as evidence for cybernetic strategies. The differences between the cybernetic and the rational analytical strategies of decision making is shown in Table 2.

Table 2
The Rational-Analytic vs. the Cybernetic Strategies of Decision Making

Criteria	Rational Analytic Decision Strategy	Cybernetic Decision Strategy
Consideration of Alternatives	Decisions are made through explicit consideration of all the alternatives	Decisions are made by considering only a few critical alternatives at a time i.e. a hierarchical process is used
Evaluation of Alternatives	Outcomes and probabilities are attached to each alternative	Outcomes are not attached to each of the decision alternative.
Consideration of Factors	All the factors that affect the decisions are considered	Only a few relevant factors are considered for decision making
Decision Rule	The outcomes and probabilities are considered for every alternative and the optimal choice is made based on some formal decision rule	Decisions are made mainly based on some heuristic which have been established through prior cognitive processes
Decision Outcome	Leads to an optimal decision	May or may not lead to an optimal decision
Handling of Uncertainty	Uncertainty is dealt through the assignment of probabilities to outcomes	Uncertainty is dealt through highly focused attention and programmed response
Effort for Information Acquisition	Typically large amount of time and money and other resources have to be spent to collect information	Lesser resources are spent on information collection

As shown in the Table 2, each strategy has its unique set of characteristics. Cybernetic strategies does not require formal training in the mechanisms of the strategies. Hence they are more accessible to the managers of small and medium sized businesses. Since the cybernetic decision maker monitors only a critical set of variables and bases his decision on a small set of factors the information required is limited. For example, if Firm A is considering a Joint Venture with Firm B, then Firm A has the possibility of being dissatisfied with the Joint Venture if Firm B has more than two avenues for earning income (Beamish, 1985). Given this, the option of Joint Venture can be easily evaluated with simple decision rules and

without the need for extensive information. Hence in situations where there are constraints on information collection and processing, manager's may use a cybernetic strategy.

Once the decision maker and the decision task are fixed, then the choice of a decision strategy depends on a cost/benefit analysis. The benefits of the strategy include the probability that the strategy will lead to a "correct" decision, the speed of making the decision and its justifiability. Costs might include the information acquisition and the computational effort involved in using the strategy. As stated earlier, researchers (Beach and Mitchell, 1978; Payne, 1982) have strongly argued for the idea that strategy selection is the

result of compromise between the desire to make a correct decision and desire to minimize effort. Hence the choice of cybernetic strategy over the rational analytical strategy for decision making is based on a cost/benefit analysis.

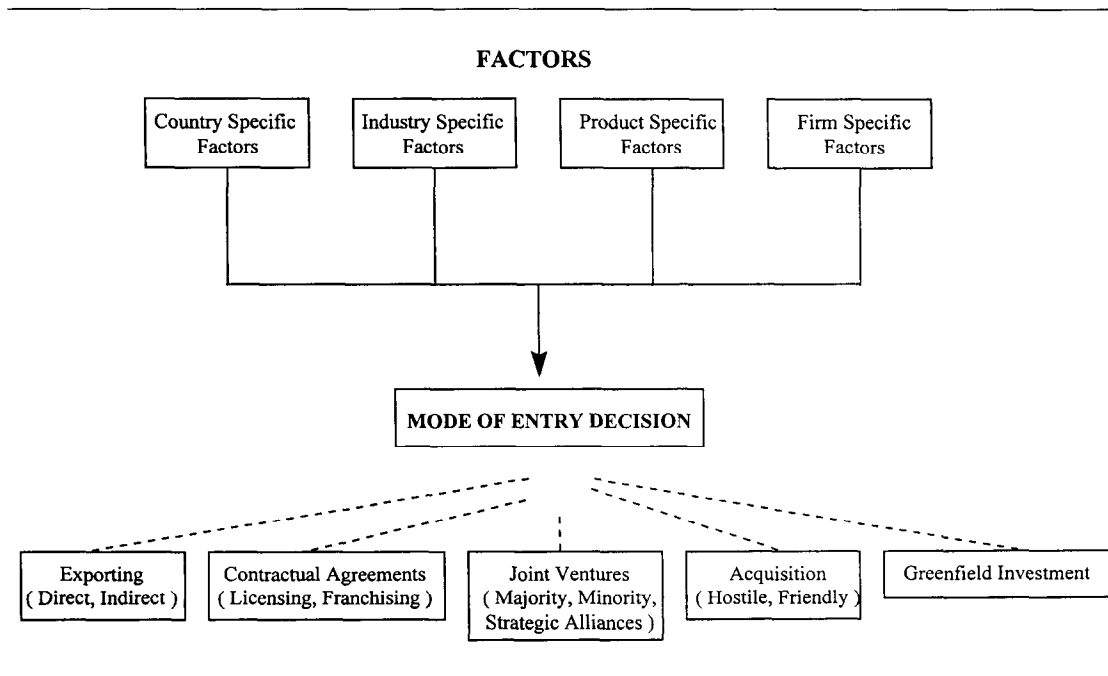
While the rational analytic strategy results in an optimal decision the cybernetic strategy may not. So in that sense the rational analytic strategy is superior to the cybernetic strategy. But the optimality of the solution using the rational analytic strategy is dependent on the amount and the quality of the information available. If there are too many factors to be considered and if obtaining reliable and accurate information is too expensive then the manager will use a cybernetic strategy to simplify the structure of the decision problem. For example, many managers in small and

medium size companies who do not have the time nor the resources to collect exhaustive information regarding the host country may use the cybernetic strategy for their mode of entry decision. The manager can also use a combination of these strategies in his/her decision task. He may use a cybernetic strategy to reduce the uncertainty to a certain manageable level and then proceed to make the actual decision using a rational analytical strategy. Next, we discuss the implications of considering cybernetic strategy as a viable alternative strategy.

IMPLICATIONS

Recent research has modeled the mode of entry decision as a qualitative choice problem (Kogut & Singh, 1988; Kim &

Figure 2
Traditional Model of the Mode of Entry Decision



Hwang, 1992). Figure 2 shows the structure of the modeling process that has been used in the literature. The model structure shown in Figure 2 is based on the assumption that managers make the mode of entry decision using the rational analytical strategy. The key assumptions underlying the structure of this model are:

- Managers consider all the modes of entry together at the same level when they are making this decision.
- Managers believe that all the factors have the same level of relevance for all the modes of entry.

A multinomial logit model (MNL) has then been specified to estimate the effect of a common set of explanatory factors on the probability that each of the mode of entry would be chosen. The multinomial logit model allows the explanatory variables to affect differential odds of choosing one mode of entry (e.g., exporting) relative to another (e.g., foreign direct investment). But there is a potential flaw in this model specification. Given that there are multiple types of joint ventures (majority, minority and strategic alliances), exporting (direct

and indirect), acquisitions (hostile and friendly), some of the modes of entry are more similar to one another compared to others and therefore do not compete with each other at the same level. They differ from each other on risk, return and control characteristics (Anderson & Gatignon, 1986). Table 3 provides a comparison of the various modes of entry on the risk, return, control and integration characteristics.

As shown in Table 3, no two modes of entry are alike across different characteristics. Also, the factors influencing the choice amongst various modes of entry could differ from one entry mode (e.g., direct exporting) to another (e.g., greenfield investment). Consider a firm exploring the options available to enter a foreign market. Say, the firm is evaluating different degrees of joint venture (majority, equal, minority, strategic alliances) and the possibility of direct exporting versus indirect exporting. The factors (e.g., familiarity with the host country and industrial GNP of host country) affecting degree of the joint venture (Gomes-Casseres, 1990) could be different from the factors (e.g., delivery time, agent availability, distance) affecting the decision to export and type

Table 3
Characteristics of Various Modes of Entries

Characteristics	Modes of Entry				
	Exporting	Contractual Agreement	Joint Venture	Acquisition	Greenfield Investment
Risk	Low	Low	Moderate	High	High
Return	Low	Low	Moderate	High	High
Control	Moderate	Low	Moderate	High	High
Integration	Negligible	Negligible	Low	Moderate	High

of exporting. Hence a MNL is not appropriate to model the single stage process since it suffers from the problem of Independence of Irrelevant Alternatives (IIA) (Urban & Hauser, 1993). The use of all the factors described earlier to affect the degree of joint venture and the type of exporting in a single modeling framework using MNL can yield incorrect choice probabilities. These incorrect choice probabilities result in the possible selection of a wrong mode of entry.

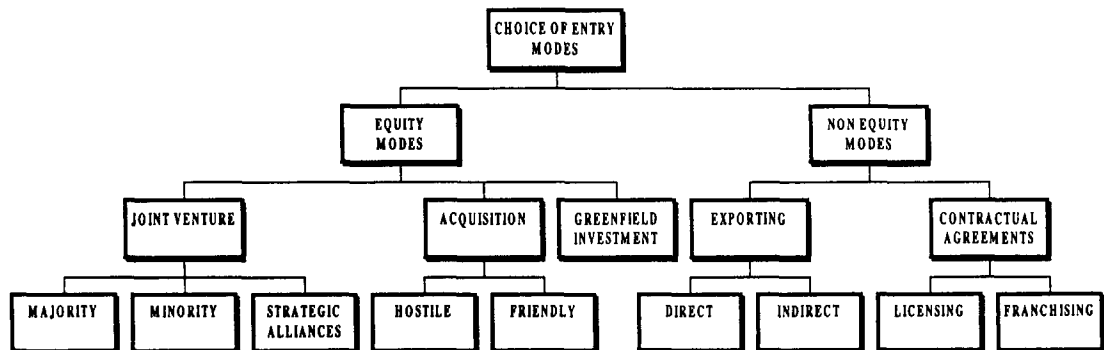
In contrast, managers using the cybernetic strategy will use a hierarchical process to reduce the uncertainty and complexity in the mode of entry decision task. A natural hierarchy exists among the various modes of entry. The modes of entry can be classified as equity and non-equity modes of entry based on the amount of resource commitment that is necessary to establish operations in the foreign market. The equity modes of entry are those that require a major resource commitment from the firm. Joint Ventures, Acquisitions and

Greenfield Investments can be classified under this title. Exporting and Contractual Agreements can be classified as non-equity modes of entry because they require considerably lesser resource commitment from the firm. The equity and the non-equity modes also differ considerably on the risk, return and control characteristics. This structure is shown in Figure 3. This structure is consistent with the Cybernetic strategy. The key assumptions underlying this structure are:

- Managers use a hierarchical process during the mode of entry decision task.
- Managers consider only a few critical factors at each level of the hierarchy.
- Managers consider different factors at different levels of the hierarchy.

Root (1994) summarizes the influence of external and internal factors on the choice of mode of entry which supports the notion of different factors affecting the different levels of the hierarchy.

Figure 3
A Hierarchical Model of the Mode of Entry Decision



A model specification that is consistent with this structure is the nested or the sequential logit model. This model does not suffer from the problem of Independence of Irrelevant Alternatives (Urban & Hauser, 1993).

The organization of the mode of entry decision as a hierarchical model certainly facilitates the study of strategy used by small to medium sized businesses. These firms normally do not have enough time and monetary resources to evaluate all alternatives at the same time. For example, a small U.S. firm wanting to enter the Australian market may consider only non-equity modes given the lack of resources. Next, the firm might rule out exporting to Australia from the U.S. directly given the distance, time and the uncertainty of delivering the product at the required time. Therefore, the firm based on the available resources might enter into a contractual agreement with another firm to produce and deliver the product to the Australian clients. The choice of licensing or franchising may be decided in an objective manner. In other words, all the factors that are relevant for this stage of decision may be considered, complete information may then be obtained and then a rational analytic approach could be used to decide on the final choice of the mode entry. Gomes-Casseres (1990) illustrates the use of logit analysis for modeling the degree of joint venture (see the bottom hierarchy under Joint Venture in Figure 3). Although, the above process has been described in a simplistic manner, even for small businesses extensive deliberation (both formal and informal) occurs at each stage of the mode of entry shown in Figure 3.

Douglas and Craig (1995) suggest the adoption of a portfolio approach to assess the appropriate combination of countries to enter and modes of operation. The use of a contingency framework (using the merits of rational analytic, cybernetic strategy and elimination-by-aspects strategies) can facilitate the study of the integrated decision of market selection and mode of entry, especially for small to medium sized businesses. As a next step, the contingency framework discussed in this study should be subjected to empirical validation. A study should be conducted to include both large and small businesses and information relating to various steps discussed in the contingency framework should be obtained. The use of various decision strategies can then be contrasted. The viability of the joint decision of market selection and mode of entry can then be explored.

CONCLUSION

Past literature on the mode of entry decision has tried to explain the choice of mode of entry into a foreign market as a function of various exogenous factors. In this paper, certain factors that are endogenous to the decision task are posited to affect the choice of mode of entry. A decision made by the manager depends not only on the external factors but also on characteristics of the decision task, characteristics of the decision maker and also the manager's prior expectations about the quality of the information available to make the decision. The mechanism by which these endogenous factors affect the mode of

entry decision is explained by using the contingency framework. A manager who has lesser resources or who operates in an environment in which accountability is less will try to use decision strategies that are less formal and transparent but easier to use. In contrast, a manager who is held accountable for his decisions and who has access to resources will use strategies that are very objective in nature. For example, Woodcock, Beamish and Makino (1994) developed a contingency model which suggests that different entry modes have different performance outcomes based upon their resource and organizational control demands. Such use of contingency analysis can only enhance the understanding of the decision making behavior.

Two models, the single stage model used by previous researchers and an hierarchical model consistent with the cybernetic strategy are contrasted and certain implications are drawn. But managers also tend to use a combination of strategies for dealing with complex, ill-defined decisions. They use some form of heuristics to reduce a complicated decision problem and then use formal, objective models to make a decision. Hence managers use some form of a hierarchy to reduce the problem and then use rational analytic procedures to test within the hierarchy.

If a manager considers decision tasks like entering a new country for the first time or entering a known country the choice of the strategy may be simple. But, unfamiliar, complex, uncertain, irreversible, and significant decisions should demand more from the decision maker and analytic or cybernetic strate-

gies are more likely to be used. The opposite of this setting (e.g., simple, certain, reversible, insignificant problems) should result in a simpler strategy being used. Alternatively, consider a decision task in which the problem is familiar, unambiguous, simple, and stable, but the environment imposes irreversibility, high significance, and high accountability. For example, a firm might be entering a neighboring country but faces higher entry costs due to competition and the country's infrastructure facilities. Here, the environment demands are sufficiently stringent to encourage caution and use of a more complex approach. Future research can be directed to find out how managers actually make the mode of entry decision, whether the market selection and mode of entry are in fact an interlinked decision, and also to test the proposed model specifications.

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