



DETERMINANTS OF MULTINATIONAL COMPANIES' CHOICE OF MARKET-ENTRY MODE FOR OPERATING IN ETHIOPIA: AN EMPIRICAL STUDY

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Abstract:

Multinational corporations must make a difficult decision because their entry strategy is influenced by a number of factors. The purpose of this research is to look into the factors that influence the entry strategies chosen by multinational corporations doing business in Ethiopia. To collect data at a specific time, this study used cross-sectional surveys and an explanatory research methodology. Data from multinational corporations were collected for this study using deliberate sampling methods. In the end, only 120 (or 80%) of the 154 surveys distributed were returned. However, only 112 surveys were used for the statistical analysis, yielding a response rate of 72 percent. To investigate the factors influencing the choice of entry mode, a multinomial legit model was used. The study discovered that, at a 5% level of significance, the size of the firm and the size of the market had a positive and substantial influence on the decision to choose export and intermediate entry over the hierarchical entrance. However, at a 10% significance level, factors such as global experience, market infrastructure, cultural distance, flexibility, and degree of control are favourably and significantly impacting the decision to choose the export and intermediate modes of entrance over the hierarchical modes. The recommendations based on the study's findings consider how the study may affect different stakeholders, such as the Ethiopian government, regional businesses, international firms, and other researchers.

Keywords: entry mode, entry mode choice, export mode, intermediate mode, hierarchical mode, small and medium enterprises

1. Introduction

An institutional setup known as an entrance mode is one that a company utilizes to advertise its goods in a foreign market for the first three to five years. This is also thought

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of as the typical amount of time needed for a company to fully penetrate a foreign market (Root, 1994). The company's success or failure may be impacted by the manner of entrance used in a foreign market. The most crucial strategic option a company making as it enters new markets is the entry mode (Erramilli, 1990). The method of market entry cannot be easily changed after it has been chosen. Recent trends have made it easier for businesses to conduct worldwide business. These trends include globalization, technology advancements, improved information flows, and changes to organizational structures (Cancellieri, 2008).

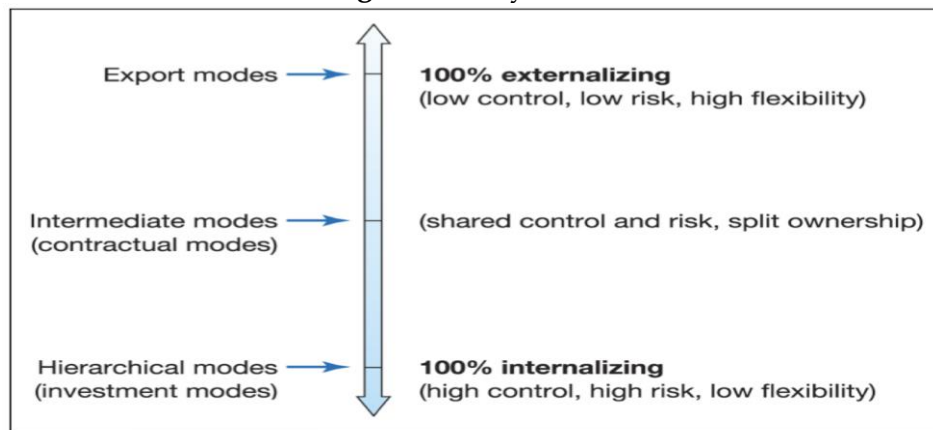
An international market entrance mechanism, according to Root (1987), is an institutional setup that enables the entry of a company's goods, technology, human resources, management, or other resources into foreign nations. There are numerous strategies to break into new international markets. Each of these approaches imposes specific organizational and financial resource demands on the business (Belu, 2008). There are many methods for entering foreign markets, and each one involves a different level of risk and dedication from an international company. In general, there are various steps involved in implementing an international development strategy (Twarowska, 2013).

The choice of entry mode is one of the most crucial steps in the internationalization process because of its effects on performance and long-term effects on the company (Werner, 2002). The choice of market entry mode is a crucial consideration for businesses thinking about doing business abroad (Chung and Enderwick, 2001). "*Exporting, licensing, equity joint ventures (EJV), and wholly owned subsidiaries (WOS) are the four most popular forms of foreign market access techniques.*" (Lin, 2000). Research by Albaum and Duerr (2011) suggests that analysis and experience may be used to determine entry mode decisions. In this case, "experience" either refers to the company's own experience operating internationally or to the experiences of its partners or other foreign businesses. According to Kumar and Gelb (2004), the business/institutional climate in the host country and the resource requirements of multinational corporations (MNCs) are the main factors influencing the choice of entry mode.

On the other hand, Koch (2001) divides influencing elements into internal and external components. The external factors include characteristics of the overseas country, business environment, market barriers, market growth rate, and global management efficiency requirements. The internal factors are company size/resources, management locus of control, anticipated overseas market risks, and market share targets. The country's market size and growth, company' international experiences and know-how, local knowledge, and psychic distance are the main factors that influence foreign investment (Mukli et al., 2009).

Svend Hollensen (2007) research was built on the three entry mode types of hierarchical, intermediate, and export modes, as seen in Figure 1:

Figure 1: Entry Modes



Source: Svend Hollensen (2007).

The export-type entry-mode is widely used when entering a new market abroad since it enables domestic and international production while exporting to a third country. This strategy, which is further divided into direct and indirect export, is characterized by high flexibility, low risk, and low level of control. When using the intermediate mode, knowledge transfer is a key component supported by mutual agreements. A risk- and ownership-sharing arrangement between the producer and a local business partner is the goal of this entry method. Joint ventures, where two parties work together to launch a business, franchising, where a business sells a concept or a trademark, and licensing, where only a portion of the business is shared, are common examples of this. In a hierarchical entry-mode, the enterprise maintains control since it owns the local business in the neighborhood. This mode is further broken down into two subcategories: starting an enterprise from scratch or purchasing an existing business with the intention of taking over the entire enterprise. The hierarchical method has a high degree of control, little flexibility, and high dangers, as seen in Figure 1 above. The business can decide to operate locally if it wants to acquire cultural expertise from local workers that will be useful during the internationalization process (Boyd et al., 2012; Hollensen et al., 2011; Hollensen, 2007).

According to Kaffash et al. (2012), there are a number of entry options to global markets, and businesses choose one of them based on their resources, products, internal market conditions, global market opportunities, and prior experiences. Despite the fact that there are various ways to enter international markets, there is no comprehensive list of modal structures that may be used by investors (Mwiti, 2013). On the other hand, Charles (2007) categorizes the methods of entering foreign countries into four groups: export, contractual arrangements, joint ventures, and completely owned subsidiaries.

Mwiti (2013) asserts that there is no comprehensive list of modal structures that exist or are available to persons who seek to invest, despite the fact that there are numerous ways to reach the overseas market. According to Anderson and Gatignon (1986), a corporation must choose the best "entry mode" (institutional setup) for the foreign market before attempting to perform a business function there. According to the

hierarchical model of entrance modes, the primary consideration when selecting an entry technique is whether the company uses equity or non-equity entry modes.

2. Foreign market entry modes and approaches

Many different market entry strategies and methods were given by market entry strategists and academic researchers. Svend Hollensen (2007) asserts that a company's decision on its entrance strategy for a specific product or target nation is the result of numerous, frequently conflicting influences. The selection of the entrance mode may be influenced by the four types of factors listed below: Factors to take into account include internal and external conditions, desired mode characteristics, and transaction-specific behavior. The goal of this study was to find out whether the entry strategies used by foreign companies operating in Ethiopia when using export type entry mode, intermediate type entry mode, and hierarchical type entry mode are influenced by internal factors, external factors, transaction specific factors, and desired entry mode characteristics.

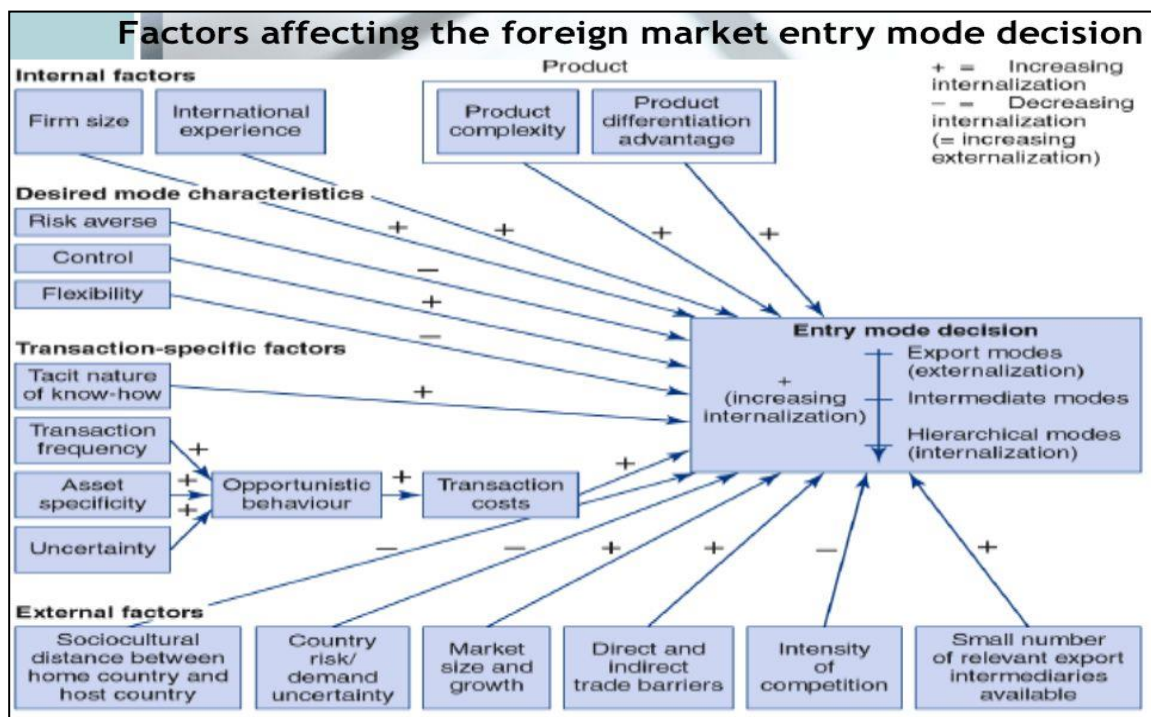


Figure 2: Global Marketing - a Decision-Oriented Approach (Svend Hollensen, 2007)

2.1 Factors influencing on selecting entry mode

Entry mode is an institutional arrangement for the entry of a company's products and services into a new foreign market.

According to Root (1994) there are three different rules:

“Naive rule: the decision-maker uses the same entry mode for all foreign markets. This rule ignores the heterogeneity of the individual foreign markets.

Pragmatic rule: the decision-maker uses a workable entry mode for each foreign market. In the early stages of exporting the firm typically starts doing business with a low-risk entry mode. Only if the particular initial mode is not feasible or profitable will the firm look for another workable entry mode. In this case not all potential alternatives are investigated, and the workable entry may not be the 'best' entry mode.

Strategy rules: this approach requires that all alternative entry modes are systematically compared and evaluated before any choice is made. An application of this decision rule would be to choose the entry mode that maximizes the profit contribution over the strategic planning period subject to: The availability of company resources, Risk and Non-profit objectives."

On the other side, Root (1994) claimed that internal factors determine how external factors affect market entrance mode, as illustrated in the Figure 3 below:

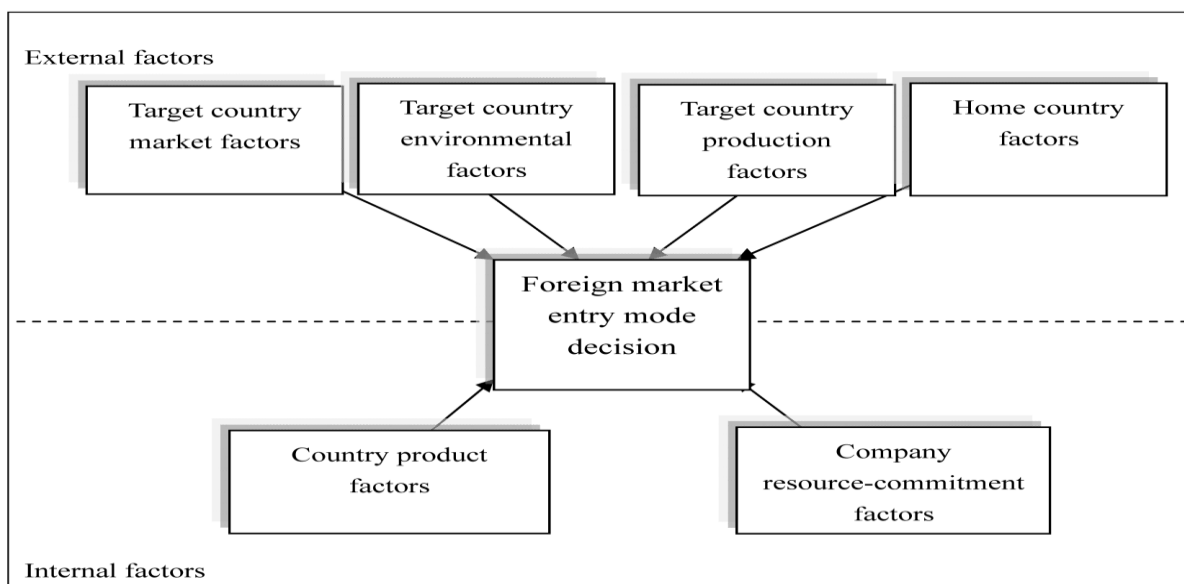


Figure 3: Factors influencing on selecting entry mode with respect to approach (Puljeva & Widen, 2007:12)

2.2 The range of entry modes

The range of entrance modes—from minimal control (export) to high control (WOS), which differ in the degree of investment risks, resource commitments, and financial returns—can be thought of as a continuum. The continuum in Figure 3 shows how high control entry modes need more foreign resource commitments and expose the foreign operation to more uncertainty. Low control modes necessitate a smaller investment of resources, which lowers investment risk, but the fashion retail company has less influence over global activities, which could lead to lower financial returns (Hill et al., 1990). Managers must evaluate the environment and select the most effective international strategy before entering a foreign nation. Research on MNCs' entry mode plans is lacking, especially for businesses entering developing countries like Ethiopia. Figure 4 summarizes the various entrance modes:

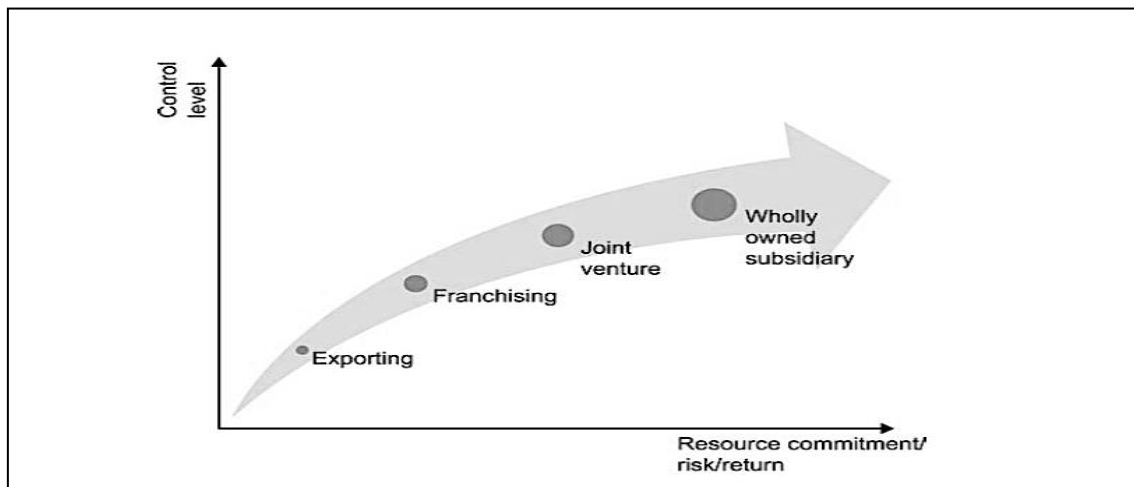


Figure 4: Entry Mode Characteristics (Lu et al., 2011)

3. Statement of the problem

When closed international markets open and the globalization of economies accelerate, growth through market expansion abroad has become a highly effective method (Rasheed, 2001). Many researchers emphasize the need for careful decision-making when entering the global market. According to Dehghan, who was referenced by Sadaghiani et al. (2011), entry strategy into foreign markets is one of the key components of international marketing strategies used by businesses to compete on the global stage. This strategy is what determines whether a business succeeds or fails. The decision of market entry mode is crucial for companies thinking about doing business abroad (Chung and Enderwick, 2001).

Agarwal and Ramaswami (1992) assert that selecting an entry strategy is a difficult problem for companies interested in catering to international markets. Despite the fact that a number of entry strategies have been put out by various experts, no clear proof regarding how businesses internationalized—whether they are entering developed or developing countries—and what factors motivated them to adopt their strategy—has been offered. The objective of this study is to evaluate the strategies used by international enterprises to enter Ethiopian markets as well as the specific elements that influence such decisions. In light of this, the goal of this study is to assess foreign market entrance tactics and specific factors that affect international businesses' decisions regarding their mode of entry in Ethiopia.

- What factors affect the entry mode decisions?
- What entry modes are more appropriate for Foreign Companies to enter into Ethiopia?

4. Literature review

4.1 Theoretical review

There are four main theories or viewpoints in international business (IB) regarding how to enter foreign markets. According to the transaction cost theory (TCT), choosing an entrance method for governance purposes needs a logical trade-off between the transaction costs (TCs) connected to market and hierarchy modes (Anderson and Gatignon, 1986). Dunning (1988) created the Eclectic Paradigm (OLI Model), which divides foreign direct investment (FDI) into three categories: ownership advantages, locational advantages, and internalization advantages. The Resource Based Theory (RBT) is interested in how a firm's resources and skills affect how it differentiates itself from other firms and how it achieves and maintains competitive advantage (Barney, 2001).

In order to protect its resources and expertise, an investor with more advantageous resources than a local company will usually choose a Greenfield venture. Last but not least, the Institutional Theory (IT) focuses on the influence of the political, social, and economic systems on organizations' conduct (North, 1990). Emerging markets multinationals are more likely to pick high commitment investment strategies like wholly owned subsidiaries or equity joint ventures since they are frequently stronger at navigating risky and uncertain settings (Cuervo-Cazurra, 2012; Anil et al., 2014).

4.1.1 The transaction cost theory

According to transaction cost theory (TCT), a corporation will most likely select an entry mode that strikes a balance between the cost of resource commitment and the degree of control. This forces a company to determine the most effective and cost-effective method to reduce transaction expenses related to conducting business in a foreign market, such as information search costs and opportunist costs (Hennart, 1989). In TCT, the decision is influenced by three factors, including asset specificity, uncertainty, and frequency, when entering a foreign market (Williamson, 1985; Wilkinson & Nguyen, 2003). Asset specificity is the combination of people and physical resources, such as products and technology and knowledge and expertise (Anderson & Gatignon, 1986). High-knowledge companies typically use their knowledge on their own. As a result, they have a high degree of ownership and control over their international commercial operations (Anderson & Gatignon, 1986). According to TCT, businesses may experience both internal and external types of uncertainty (Anderson & Gatignon, 1986).

Internal uncertainties are the first category of uncertainty. Smaller businesses (SMEs) may have trouble adjusting to internal unpredictability because they may lack effective mechanisms for managing their international activities (Zacharakis, 1997). Additionally, some academics noted that cultural differences could cause significant internal instability for businesses (Hollensen, 2011). This can be explained by the increased uncertainty that managers experience when unfamiliar with the culture of other nations (Anderson & Gatignon, 1986). External uncertainties are the second kind of uncertainty. They are frequently viewed as national threats, including changes in

technology, politics, the monetary system, and the economy (Anderson & Gatignon, 1986).

According to Brouthers & Nakos's (2003) research, companies entering low-risk nations tended to choose greater control modes while those entering high-risk countries tended to choose lower control modes. Additionally, the level of competition also breeds uncertainty in the environment (Porter, 1980).

In a situation where there is intense competition, businesses will favor using lower control modes (Chen & Mujtaba, 2007). According to Williamson (1985), the frequency of transactions increases when the same type of transaction is repeated. Wilkinson & Nguyen (2003) further stated that the frequency of transactions has to be taken into account as a way of limiting the market's potential (growth and size). The degree of specialization (labor and capital) in the overseas market is constrained by the market's size. When sales are low in the market, specialized personnel and resources (systems and equipment) cannot be utilized fully or effectively (Stigler, 1951).

4.1.2 The resource-based theory

Recently, entrance mode selections have been explained by the concepts of organizational capability and modes of entry. The theory of resource-based organization is the foundation of the organizational capabilities perspective. According to Madhok (2001), organizational capability views the firm as a collection of static and transferable resources that are transformed into capabilities through dynamic and interactive firm-specific processes where individual skills, organization, and technology are inextricably woven together. The resource-based theory, according to Peteraf (1993), has significant implications for corporate strategy, including issues with firm boundaries and a single business strategy to aid managers in differentiating between resources that could support competitive advantage and other less valuable resources.

According to resource-based theory, firms are described in terms of their firm-specific resources and capabilities, as well as how they use them to gain competitive advantages (Barney, 1991). Firm-specific resources include things like physical assets, financial resources, proprietary technologies, expertise, networks, and foreign experience. They can also be intangible or tangible (Sharma & Erramilli, 2004; Barney, 1991).

A company's capabilities allow it to use its resources to create goods or services that set it apart from its rivals (Sharma & Erramilli, 2004). A company can compete and reach its long-term objectives in international markets if it has adequate resources and uses them wisely to boost its competitive edge (ibid). As a result, this theory largely focuses on resources that are non-replaceable, incompletely imitable, valuable, and unusual and have the ability to add value or give the firm a competitive edge (Barney, 1991). According to the theory, a company seeks the entrance strategy that will allow it to make the best use of its current resources or develop new ones in the foreign market (Sharma & Erramilli, 2004).

4.1.3 The eclectic paradigm (OLI Model)

In the eclectic paradigm (OLI model), created by Dunning in 1988, three factors - ownership advantages, locational advantages, and internalization benefits - are used to explain foreign direct investment (FDI). Internationalization requires the company to have advantages in net ownership. The eclectic paradigm can provide information to an organization on the viability of a market entry plan, depending on the firm's FDI motives (market, efficiency, and strategic asset-seeking) and OLI advantages. The MNE must have ownership-specific advantages that set it apart from other companies operating in the market in order to successfully enter and conduct business there. These are the information, skills, capabilities, processes, connections, or physical assets that the company has that enables it to successfully compete in the global economy. Together, they make up the company's competitive advantage.

A location-specific advantage is a term used to describe the comparative benefits seen in various foreign nations. Each nation has its own set of advantages from which businesses can get certain benefits (Hollensen, 2007). Examples include raw materials, skilled labor, inexpensive capital, and labor that is in high demand. Managers with knowledge look for ways to gain from the host nation's advantages. To be successful, an FDI needs a location-specific advantage. The decision to relocate must be financially advantageous for the company and must make use of both ownership- and location-specific benefits in the destination nation. The benefits of internalization include the ability to manage the production and marketing of the company's goods, the control over the disclosure of its trade secrets, and the ability to lessen consumer ambiguity over the worth of the items the company offers (Albaum, Duerr, & Strandkov, 2005).

4.1.4 The institutional theory

Understanding the differences in institutional settings between the home and host nations, which may have an impact on the choice of entrance mode determined by specific regulations, norms, and values (Davis et al., 2000). Internalization expenses, such as those associated with gathering information and communicating in the host nation, may increase as a result of cultural distance (Steigner & Sutton, 2011). However, Polesello et al. (2013) claimed that the function of the agent or partner was significant in nations with a significant cultural distance from the home country, demonstrating the value of networking to get over institutional barriers.

Murakami (1996) also emphasized that government restrictions, interference, and regulations make up the institutional environment. One of the institutional aspects that have received the greatest attention in the entry mode literature is the host country risk, which includes the political risk. The company may require the assistance of a local partner to enter a high-risk country who can give it access to market knowledge and share risk (Luo, 2001).

4.2 Empirical review

The final outcome of numerous, frequently opposing forces determines how an organization chooses its entrance strategy for a given product/target country. Making a decision about the entry mode involves making a lot of trade-offs between various entry modes due to the necessity to predict the direction and strength of these forces (Hollensen S., 2011).

The characteristics of the product/service, enterprise resources, level of competition, corporate policy, market size and potential, government policy, geographic and cultural environment, financial and price parameters of the market, size of the enterprise, international experience, degree of risk, demand uncertainty, trade barriers, characteristics and number of relevant competitors are all factors that can affect the decision of how to enter a foreign market.

4.2.1 Internal factors affecting entry mode choice

a. Characteristics of the product/service and choice of foreign market entry strategy

A key competitive advantage for a corporation is the capacity to set its goods and services apart from those of its rivals (Root, 1994; Hollensen, 2011). In general, a business that offers services must be near or communicate with its international clients. The necessity for service both before and after the sale is identical to that of produced goods. A local production is therefore appropriate (Root, 1994). A company will choose for a high control mode in order to stop the spread of technological know-how (Root, 1994). As a result, adopting a greater control entry style is connected with a high degree of product differentiation and complexity (Root, 1994).

H1: Characteristics of the product/service positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

b. Size of the firm and choice of foreign market entry strategy

According to the resource base theory, the size of a firm indicates the firm's resource availability such as financial and human resources (Koch, 2001; Hollensen, 1988). Smaller firms generally have more limited resources (Root, 1994). Therefore, SMEs may not have enough management potential and skills to enter a foreign market through an entry mode that requires a high level of resource commitment by themselves (Koch, 2001). However, when the firm's resource availability increases, this provides the basis for increased international involvement or resource commitment in the market (Root, 1994). Therefore, SMEs with limited resources prefer to choose lower control and resource commitment modes for their international expansion (Root, 1994; Koch, 2001).

H2: Size of the firm positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

c. International experience and choice of foreign market entry strategy

International expertise is the collected understanding of local markets to minimize risks in cross-border business transactions (Chen & Mujtaba, 2007). Uncertainty and risk

associated with choosing a foreign market are likely to be perceived as being higher by a company with less experience in international markets. Higher international experience firms are more inclined to devote more resources to the international market (Chen & Mujtaba, 2007). Koch (2001) also discovered that familiarity with a specific entry mode affected the entry mode chosen by the future firm.

H3: International experience positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

c. Network and choice of foreign market entry strategy

MNCs with ties to local partners will be better positioned to acquire knowledge and skills as well as access markets that demand significant amounts of resources and talents (Spence, 2003). Businesses can leverage their networks to obtain trustworthy information, save transaction costs, establish credibility, and increase their ability to adapt to new business settings (Wan & Lowe, 2007). However, the business's capacity to get and utilize resources from their local networks also plays a role (Chetty & Agndal, 2007). According to Polesello et al. (2013), the more an organization participates or collaborates in its global networks, the more equipped it is to reduce uncertainties and the impacts of cultural distance. By doing so, the company is able to overcome the difficulties in the host nation and select the entry strategy that best utilizes its resources. According to Ripollés et al. (2012), a network enables the companies to show greater degrees of commitment to the host nation. A key factor influencing the mode of entry into the market is corporate networking (Johanson & Vahlne, 2003; Wan & Lowe, 2007).

H4: Network positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

4.2.2 External factors affecting entry mode choice

a. Size of the market/market potential and choice of foreign market entry strategy

The size and expansion of a foreign market are sometimes referred to as market potential (Chen & Mujtaba, 2007). The market's size and expansion are significant host nation factors that affect the choice of entrance technique. A company will be more motivated to invest more resources in the overseas market if the size of the target market is larger since there is more room for expansion. A company is therefore more likely to select a greater control entrance strategy for its long-term presence in the foreign country (Koch, 2001).

H5: Size of the market/market potential positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

b. Intensity of competition and choice of foreign market entry strategy

The intensity of competition is measured by the number of competitors of a firm in a foreign country. The level of competition in the target market affects entry mode strategies (Chen & Mujtaba; 2007). If the intensity of competition is high in the foreign market, the market becomes less profitable and does not encourage high resource

commitments (Hollensen, 2011). Therefore, in markets with high intensity of competition, firms prefer to choose lower control and resource commitment entry modes (Hollensen, 2011; Root, 1994).

H6: Intensity of competition positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

c. Market infrastructure and choice of foreign market entry strategy

According to Ekeledo and Sivakumar (1998), marketing infrastructure is a combination of financial institutions; advertising agencies and marketing research companies. When the marketing infrastructure is non-existing or of poor quality, an exporting company may, for example, decide to use a branch/subsidiary entry mode (Root, 1987).

H7: Market infrastructure positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

d. Cultural distance and choice of foreign market entry strategy

The term "cultural distance" can be used to describe the fundamental differences in norms and values between the home country and the host country of a firm, including those in terms of language, business practices, consumer goods, preferences, religion, beliefs regarding consumption, and other areas (Hollensen, 2011). The operational decisions are hampered by a lack of understanding of cultural variations, according to Johanson and Vahlne (1977). The understanding of local partners, according to Barkema et al. (1996), helps reduce the dangers of entering markets that are culturally distinct. The corporation will often favor lesser control and resource commitment entry strategies the more perceived cultural distance there is between countries (Root, 1994).

H8: Cultural distance positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

e. Market barriers and choice of foreign market entry strategy

Government regulations, tariff barriers, and distribution access are examples of trade and legal hurdles that affect the market. These obstacles make it very difficult for international businesses to penetrate the host country (Koch, 2001). If trade obstacles have been reduced or eliminated, an increasing number of businesses are considering international expansion (Hollensen et al., 2014). However, businesses will be forced to choose a lower control entry style if the government of the host nation imposes unreasonable limitations on foreign ownership (Brouthers, 2002).

H9: Market barriers positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

4.2.3 Transaction-specific factors

a. Tacit nature of know-how

Tactic knowledge, which is difficult to understand and express in words, frequently relates to sophisticated goods and services whose functionality is difficult to describe. It

is more challenging to transfer firm-specific know-how through contracts with outside partners when its nature is tacit because it is inherently difficult to define and patent. The following criteria are used by Sanchez-Peinado et al. (2007) to assess the level of "tacit know-how": the difficulty of comprehending the skills and knowledge involved; the difficulty of transferring skills and knowledge; the difficulty of valuing an item's exact cost based on its characteristics; and the difficulty of copying those skills and knowledge. The creation of a contract (to transmit such intricate know-how) might be exceedingly difficult due to tacit knowledge. Firms are encouraged to utilize hierarchical patterns by the costs and difficulties associated with transmitting tacit knowledge. The transfer of tacit knowledge inside organizations is more easily facilitated via investment modes.

H10: Tacit nature of know-how positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

b. Opportunistic behavior from the export intermediary

Two activities may reflect the opportunistic nature of the export intermediary: the majority of producer-export middleman contracts specify how the costs of sales promotion will be divided. Therefore, the export intermediary may use accusations of excessive sales promotion activities, such as those involving manipulating invoicing, as grounds for a higher payment from the producer to the export intermediary (Hollensen, 2011). The export intermediary may falsify statistics about the size of the market and competitors' prices in order to obtain lower ex-works pricing from the producer. Of course, this kind of opportunism can be avoided if the export intermediary earns a commission of the realized turnover (the agency case).

H11: Opportunistic behavior positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

4.2.4 Desired entry mode characteristics

a. Degree of risk and choice of foreign market entry strategy

Their choice of entry mode is heavily influenced by their estimation of the hazards in the host country (Brouthers & Nakos, 2004). Country vulnerabilities result from the host nation's political and economic circumstances, such as its unstable political system and currency (Agarwal & Ramaswami, 1992). These make the future demand condition more risky and unknown, which prevents a company from accessing the target market (Wrona & Trapczynski, 2012). In these situations, a company may select entrance methods with less control and resource commitment so they can quickly quit the market. (Lin, 2000). Therefore, a corporation should select a lower degree of control and commitment mode when country risks are high (Brouthers & Nakos, 2004).

H12: Degree of risk positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

b. Choice of foreign market entry strategy

The peculiarities of each entrance mode, which are defined by varied levels of risk, flexibility, and control, must be considered when choosing a foreign market entry plan. The enterprise's possibilities for growth in the export market may be impacted by the risk, which is linked to the political and economic environment's unpredictability. Generally speaking, businesses are less willing to make larger commitments to spend resources in a specific country the higher the risk element is (Kotabe M., Helsen K., 2016).

c. Control and choice of foreign market entry strategy

The operations of the international business unit are frequently under the supervision of multinational corporations in an effort to minimize the risks associated with global expansion, with the hope that this will enable them to better monitor and control hazards (Cyert and March, 1992). The degree of resource mobilization and control are frequently strongly related. Indirect export modes, for example, offer little to no control over the terms under which a good or service is supplied abroad. Entry options with low resource commitments. Contractual arrangements demand adherence to quality standards (Hollensen S., 2011).

H13: Level of control positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

d. Flexibility and choice of foreign market entry strategy

The level of flexibility provided by several alternative entry techniques varies greatly. Contractual modes usually don't offer much flexibility because of their very nature. Wholly owned subsidiaries have relatively little flexibility compared to other entry options when significant exit restrictions are present since they are difficult to unload (Kotabe M., Helsen K., 2016).

H14: Flexibility positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

e. Foreign market entry mode decision

Choosing a market entrance method is characterized as a company's long-term commitment to operating in a target market using a particular market contact strategy (Samiee, 2012). The following mechanisms can be used to expand into international markets: direct investment, licensing, franchising, joint ventures, and exporting. Selling products and services made in one country to another is the process of exporting (Tandawa, 2006). The terms of a licensing agreement can be altered to meet the needs and interests of both the licensor and the licensee (Kotler, 2007).

"The franchising system is a system in which semi-independent business owners (franchisees) pay fees and royalties to a parent company (franchiser) in exchange for the right to use the franchisor's trademark, sell its goods or services, and frequently use its business model and system" (Zimmerer and Scarborough, 2008).

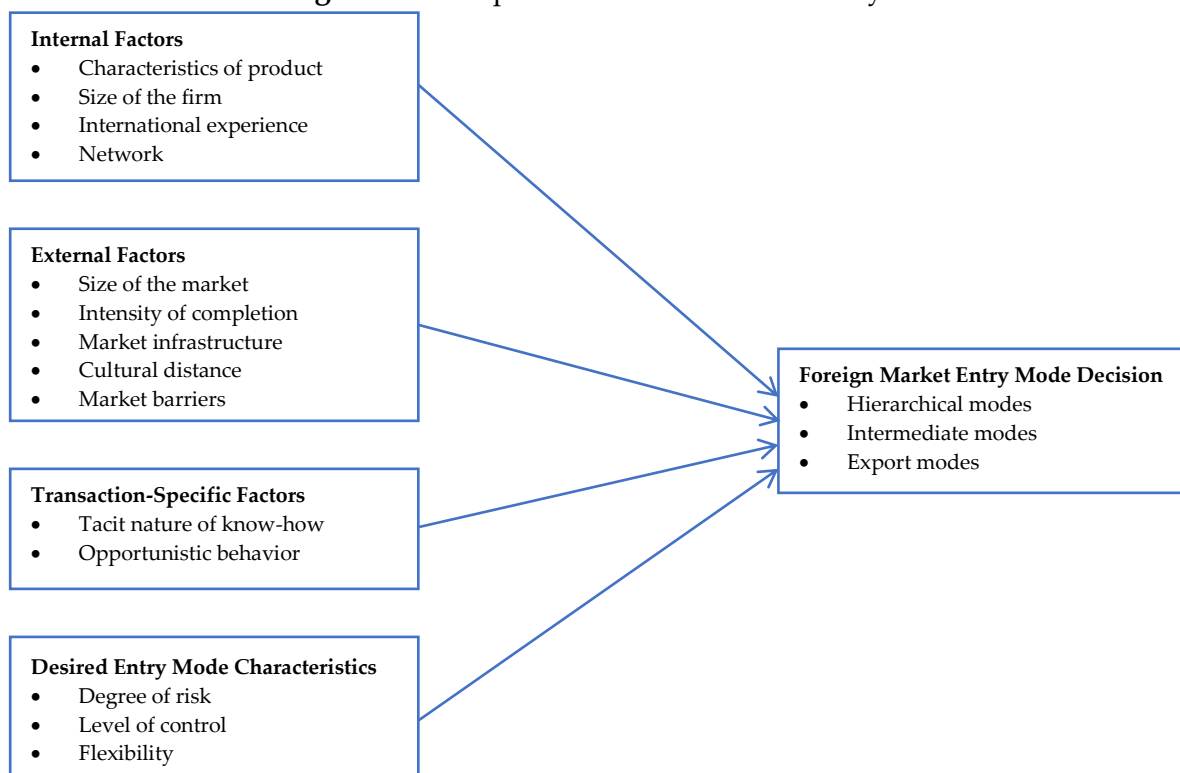
The creation of a joint venture, in which two organizations pool their resources to provide goods or services, is one of the most well-liked entry methods (Coleman, 2006). A strategic alliance is a kind of cooperation arrangement involving several businesses, such as formal joint ventures, pooled research, or minority equity participation (Bartett, 2009).

The term "foreign direct investment" (FDI) refers to a financial transaction in which a multinational corporation invests in, or otherwise builds fixed assets in, a foreign country (Stiegert et al., 2006). According to Bedi and Kharband (2014), an acquisition is a circumstance in which one company purchases the majority or the entire ownership stake of another company in order to seize control of the target company

From the standpoint of the manufacturer (a worldwide marketer), there are three categories of market entry methods: export modes include low control, low risk, and high flexibility, whereas intermediary modes (contractual modes) feature shared control and risk, split ownership, and hierarchical modes (investment modes) feature high control, high risk, and limited flexibility.

4.3 Conceptual framework of the study

Figure 5: Conceptual Framework of the Study



Source: Own Research Model (2022).

5. Research Methodology

5.1 Descriptions of multinational companies operating in Ethiopia

Ethiopia has reportedly put forth a lot of effort to change its economy from a closed, highly regulated, centrally planned, and dominated public sector to an open, deregulated, and market-based economy, according to UNCTAD (2002). Ethiopia's government has opened up various economic sectors to international investors after realizing the lack of sufficiency of native capital.

5.2 Populations of the study and sampling design

The target populations for this study are the 500 foreign businesses that are operating in Addis Abeba during the study period. The study employed a three-stage sampling strategy: The majority of the firms are located in Addis Abeba; hence purposive sampling was used to identify it as the most representative research region. Second, to stratify foreign enterprises, the study used a stratified sample based on four continents: Africa (Kenya, Sudan, South Africa, Egypt, and others), America (USA, Canada, Mexico, and others), Asia (China, India, Saudi Arabia, Israel, and others), and Europe (Italy, UK, Belgium, Dutch, Turkey Germany and others). Each stratum of the population was sampled using a proportional stratified sampling technique. Finally, using simple random sampling, questionnaires were distributed to professionals from international companies within each stratum.

5.3 Sample size

The sample size from a population was determined using the simplified Taro Yamane formula from 1967. He suggests the following sample size with a 95% level of confidence and a p-value of 0.5:

$$n = \frac{N}{1 + N(e^2)}$$

Where,

n = the sample size

N = the size of the population

E = is the level of precision

A sample size of 154 is obtained using an assumption of 250 Companies, a 95% confidence level, and a p-value of 0.5.

5.4 Research instruments

A 5-point Likert scale of measurement is the foundation of the questionnaire used to collect the quantitative data. The questionnaire is divided into three components as follows: Section I deals with general information; Section II discusses factors affecting foreign market entry modes (internal, external, transaction-specific, and desired entry mode characteristics); and Section III discusses hierarchical modes (domestic-based sales

representatives, foreign sales, branches/sales and production subsidiaries, and establishing wholly owned subsidiaries through acquisition or greenfield investment). Intermediate Entry Methods comprise (Management Contracts, Licensing, Franchising, Turnkey Contracts, Joint Ventures and Technical Know-how or Coproduction Arrangements). Based on a thorough literature study, the questionnaire was created.

5.5 Model specification

The study uses a multinomial logit model to analyze the naturally unordered multiple category dependent variables. As a result, during the econometric portion of the research, the various entry ways are examined as possibilities without implied order. There were, in essence, three entry modes: HM (0), IM (1), and EM (2). Because the dependent variable is polychotomous by nature and has a value greater than two, the multinomial logit model is used. Based on a number of independent variables, multinomial logistic regression is used to forecast a dependent variable's chance of belonging to a category or its categorical placement. The independent variables may either be binary (i.e., dichotomous) or continuous (i.e., interval or ratio in scale).

5.6 Variables

The entry mode preference is the dependent variable. Respondents selected one of three options from a list that included Export Modes (EM), Intermediate Modes (IM), and Hierarchical Modes (HM). The independent variables include desired entry mode characteristics, external factors, transaction-specific factors, internal organizational factors, and external factors.

5.7 Variable measurement

The selection of entry mode is the dependent variable. There are several primary entry strategy types, as was previously mentioned, but this paper concentrates on three of them: export modes (EM), intermediate modes (IM), and hierarchical modes (HM), for which respondents expressed their preference among three possibilities. The values 0, 1 and 2 respectively are assigned by the researcher to the Hierarchical Modes (HM), Intermediate Modes (IM), and Export Modes (EM).

5.8 Data analysis method

The information gathered on preferred entry methods and modes, as well as the significance of important variables that affect how the company chooses to enter the market, is quantitative in nature. The multinomial logit technique would be used to examine the data. According to Moske (2011), multinomial logistic regression is a desirable method of analysis since it makes no assumptions about linearity, homoscedasticity, or normality.

6. Results and discussion

6.1 Demographic profiles

A total of 140 questionnaires were sent, but only 112 of them were returned at the end of the data collection process and employed in the statistical analysis that followed, yielding an 80 percent response rate. In Table 1, the respondents' demographic profile is displayed. 63.4 percent of the 112 respondents were from Asia, followed by 17 percent from Europe, 10.7 percent from Africa, and 9 percent from America in terms of their native continent. 76.8% of respondents, or the majority, were in the manufacturing sector, followed by 17% in the service sector and 6.3% in the sector related to agriculture. The range of experience years is as follows: between 1 and 5 years (30 percent), 6 to 10 years (19 percent), 11 to 20 years (40 percent), and more than 20 years (12 percent).

Table 1: Profile of Respondents

Item	Description	Frequency	Percent (%)
Home country	Africa (Kenya, Sudan, South Africa, Egypt and others)	12	10.7
	America (USA, Canada, Mexico and others)	10	8.9
	Asia (China, India, Saudi Arabia, Israel and others)	71	63.4
	Europe (Italy, UK, Belgium, Dutch, Turkey, Germany and others)	19	17.0
	Total	112	100
Type of business	Manufacturing	86	76.8
	Agriculture	7	6.3
	Service	19	17.0
	Total	112	100
Number of years	1-5 years	33	29.5
	6-10 years	21	18.8
	11-20 years	45	40.2
	above 20 years	13	11.6
Number of Observation		112	100

Source: Own Survey (2022).

6.2 Reliability Analysis

We employed the SPSS Multinomial Logistic Regression Technique to examine the research model. The acquired data was entered into SPSS, and its validity was also confirmed. If the question-statements (or other measures) linked to each latent variable are understood the same way by various responders, a measurement tool has strong reliability. As a result, all Cronbach alpha coefficients, which measure the items' unidimensionality as a group of scale items, are above 0.70 and range from 0.703 to 0.932, were indicating strong internal consistency.

Table 2: Reliability Analysis

Characteristics of Product	.895	5
Size of the Firm	.810	5
International Experience	.905	3
Networks	.831	5
Size of the Market	.781	4
Intensity of Competition	.765	4
Market Infrastructure	.703	4
Cultural Distance	.820	4
Market Barriers	.797	5
Tacit Nature of Know-how	.882	4
Opportunistic Behavior from the Export Intermediary	.847	2
Degree of Risk	.807	3
Flexibility	.856	3
Level of Control	.773	3
Overall Reliability.....	.932	54

Source: Own Survey (2022).

6.3 Case processing summary

This table contains information on the number and % of cases observed in each category on the dependent variable.

Table 3: Case Processing Summary

Type of Entry Mode	N	Marginal Percentage
Export Modes	64	57.1%
Intermediate Modes	30	26.8%
Hierarchical Modes	18	16.1%
Valid	112	100.0%
Missing	0	
Total	112	

Source: Own Survey (2022).

6.4 Model fitting information

Table 5's "Model Fitting Information" section includes a Likelihood Ratio chi-square test that contrasts the full model (i.e., one that includes all the predictors) with a null hypothesis (or intercept only model). According to statistical significance, the final model's fit is significantly better than the null model. In this case, we can see that the final model is significantly more important than the null model [$X^2(28) = 50.291, p.006$]

Table 4: Model Fitting Information

Model	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC	BIC	-2 Log Likelihood	Chi-Square	df	Sig.
Intercept Only	249.174	254.611	245.174			
Final	287.587	369.142	227.587	50.291	28	.006

Source: Own Survey (2022).

6.5 Goodness of fit (GOF))

Table 5 displays the Pearson and Deviance statistics to assess how well the data fit the model. The Deviance and Pearson chi-square tests are included in the "Goodness of Fit" table and can be used to assess how well a model fits the data. Results from non-significant tests show how well the model fits the data (Field, 2018; Petrucci, 2009). Both the deviance chi-square and Pearson's chi-square tests show that the model adequately explained the data [$X^2(194) = 214.430, p = .150, P > 0.05$] and that the model fit the data well [$X^2(194) = 211.733, p = .182, P > 0.05$]. The data indicates that it is fit.

Table 5: Pearson and Deviance Statistics Test

Goodness-of-Fit			
	Chi-Square	df	Sig.
Pearson	211.273	194	.182
Deviance	214.430	194	.150

Source: Own Survey (2022).

6.6 Pseudo R-square

The Pseudo R-Square test, which was used to quantify how much variation the model could account for, is displayed in Table 6. The findings indicate that the collection of independent variables (particular factors) towards the dependent variable accounts for between 7.2 percent and 16.4 percent of the variability (entry mode choices). Pseudo R-Square test lies between 0 (No Variation) and 1 (Perfect Variation). Although the variety is not great, it does exist. For this version, the model has to include more variables.

Table 6: Pseudo R-Square Test

Pseudo R-Square	
Cox and Snell	.145
Nagelkerke	.164
McFadden	.072

Source: Own Survey (2022).

6.7 Likelihood ratio tests

The Likelihood Ratio Tests table is the sole table that takes into account a nominal variable's overall effect, making it most effective for nominal independent variables. The overall contribution of each independent variable to the model was tested using likelihood ratios in these results. Five independent variables from the table have a main impact that is significant and has a p-value of less than 0.05. (product characteristic 0.024, intensity of competition 0.042, market infrastructure 0.009, market barrier 0.049, and flexibility 0.008). However, in this instance, the cut point for the p-value is assumed to be < 0.10, (size of the firm 0.093, size of the market 0.071, degree of risk 0.096). Thus, the results have shown that the independent variables (factors) are significant toward the dependent variables (entry mode choices).

Table 7: Likelihood Ratio Tests

Effect	Model Fitting Criteria			Likelihood Ratio Tests		
	AIC of Reduced Model	BIC of Reduced Model	-2 Log Likelihood of Reduced Model	Chi-Square	df	Sig.
Intercept	286.173	362.291	230.173	2.586	2	.274
PRC	284.100	360.218	228.100	7.460	2	.024
SOF	286.045	362.163	230.045	4.772	2	.093
IEX	284.531	360.649	228.531	.513	2	.774
NET	284.067	360.185	228.067	3.364	2	.186
SOM	283.863	359.981	227.863	5.290	2	.071
IOC	286.421	362.539	230.421	6.340	2	.042
MIN	284.275	360.393	228.275	9.421	2	.009
CUD	284.678	360.796	228.678	1.091	2	.579
MBA	284.450	360.568	228.450	6.032	2	.049
TKH	284.043	360.161	228.043	.456	2	.796
OPB	286.130	362.247	230.130	2.543	2	.280
DOR	286.019	362.137	230.019	4.687	2	.096
FLX	284.278	360.396	228.278	9.657	2	.008
LOC	284.526	360.644	228.526	.939	2	.625

The chi-square statistic is the difference in -2 log-likelihoods between the final model and a reduced model. The reduced model is formed by omitting an effect from the final model. The null hypothesis is that all parameters of that effect are 0.

Source: Own Survey (2022).

6.8 Classification table for entry mode choices

The main effect and interaction parameters' maximum likelihood estimates were obtained using multinomial logistic regression. Using "Export Mode," "Intermediate Mode," and "Hierarchal Mode" as the base cases from which deviations are interpreted, three distinct modes were assessed. The categorization table's results give an idea of how effectively the model can guess the right category for each case. The model successfully identified 43.8 percent of the respondents' preferred hierarchical modes, 30.4 percent of the respondents' export mode, and the remaining 25.9 percent as intermediate modes. 65.4 percent of the respondents were accurately categorized by the model for the total cases. Thus, if the entry mode is export, our dependent variable will take the value 0, if it is intermediate, the value 1, and if it is hierarchal, the value 2.

Table 8: Classification of Entry Modes

Observed	Predicted			
	Export Modes	Intermediate Modes	Hierarchical Modes	Percent Correct
Export Modes	17	5	14	57.2%
Intermediate Modes	8	13	13	38.2%
Hierarchical Modes	9	11	22	62.4%
Overall Percentage	30.4%	25.9%	43.8%	65.4%

Source: Own Survey (2022).

The method used by businesses to enter the Ethiopian market is shown in Table -8 above. According to the information in this table, 34 (30.4%) of the enterprises are exporters, 49 (43.8%) are investors in hierarchical structures, and 29 (25.9%) are new entrants using intermediate entry methods. In this study, the researcher utilized the multinomial logit modal as the basic category for the entrance mode type because hierarchal mode investment has the biggest share.

6.9 Parameter estimates and hypothesis testing

The available parameter estimates (also known as the coefficients of the model). You can see that there are two sets of logistic regression coefficients because the dependent variable was divided into three groups (sometimes called two logits). The "export mode" row contains the first set of coefficients (representing the comparison of the export category to the reference category, hierarchal mode). The row labeled "Intermediate Mode" contains the second set of coefficients (this time representing the comparison of the intermediate category to the reference category, hierarchal mode). Comparisons between each entry mode and the reference category are used to determine the outcomes of parameter estimates (Hierarchal mode). The parameter estimates with the logistic coefficient (B) are shown in Table 9 for each predictor variable (specific factor) for each possible category of the outcome variable (entry mode choice).

Table 9: Parameter Estimates

Export Modes	Intercept	2.678	5.932	0.204	1	0.652
	Characteristics of Product	0.301	0.475	4.956	1	0.026
	Size of the Firm	0.7	0.526	4.095	1	0.043
	International Experience	0.301	0.428	3.025	1	0.082
	Networks	-0.443	0.642	0.476	1	0.490
	Size of the Market	0.244	0.482	5.411	1	0.020
	Intensity of Competition	-0.198	0.558	0.126	1	0.176
	Market Infrastructure	0.206	0.598	4.709	1	0.030
	Cultural Distance	0.433	0.499	2.967	1	0.085
	Market Barriers	0.248	0.581	0.182	1	0.670
	Tacit Nature of Know-how	0.486	0.75	0.420	1	0.517
	Opportunistic Behavior from the Export Intermediary	-0.734	0.489	2.253	1	0.133
	Degree of Risk	0.384	0.628	0.594	1	0.441
	Flexibility	-0.636	0.768	0.686	1	0.408
Level of Control	0.173	1.06	3.261	1	0.071	
Intermediate Modes	Intercept	9.112	5.87	2.409	1	0.121
	Characteristics of Product	-0.27	0.464	0.339	1	0.561
	Size of the Firm	0.066	0.54	5.596	1	0.018
	International Experience	-0.138	0.449	3.565	1	0.059
	Networks	-0.218	0.666	0.107	1	0.744
	Size of the Market	0.179	0.526	4.495	1	0.034
	Intensity of Competition	0.75	0.585	1.643	1	0.200
	Market Infrastructure	0.484	0.587	3.51	1	0.061
	Cultural Distance	0.067	0.493	4.546	1	0.033
	Market Barriers	-0.327	0.575	0.323	1	0.57
Tacit Nature of Know-how	0.083	0.779	0.011	1	0.916	

Getie Andualem Imiru
DETERMINANTS OF MULTINATIONAL COMPANIES' CHOICE OF
MARKET-ENTRY MODE FOR OPERATING IN ETHIOPIA: AN EMPIRICAL STUDY

	Opportunistic Behavior from the Export Intermediary	-0.143	0.501	0.082	1	0.775
	Degree of Risk	-0.64	0.613	1.664	1	0.197
	Flexibility	-0.284	0.782	5.803	1	0.016
	Level of Control	0.932	1.004	3.744	1	0.053
a. The reference category is: Hierarchical Modes.						

Note: * Significant at 10%; ** Significant at 5%; *** Significant at 1%.

The estimated outcome does not accurately reflect the degree of change or the likelihood. Regardless of the entry style, the calculated coefficients should always be compared to the base category of hierarchal field investment. In comparison to the base outcome hierarchal mode of investment, the estimated result of the multinomial logit model showed that several of the explanatory factors had a statistically significant impact on the choice of export mode and intermediate mode of entrance. At a 5% level of significance, the size of the firm and the size of the market have a positive and significant influence on the decision to choose the export and intermediate modes of entrance over the hierarchical modes. However, at a 10% significance level, factors such as global experience, market infrastructure, cultural distance, flexibility, and degree of control are favorably and significantly impacting the decision to choose the export and intermediate modes of entrance over the hierarchical modes. Similarly, at a 10% level of significance, product attributes are favorably and significantly impacting the decision to choose the Export method of entry over the Hierarchical form of entry.

On the other hand, at a 10% level of relevance, flexibility is negatively and considerably influencing the decision to choose an intermediate method of entry over a hierarchical form of entry. Other factors, however, did not statistically influence the decision to choose an intermediate or export method of investment over a hierarchical approach. A non-significant coefficient does not necessarily imply that the variable it represents is utterly unimportant. It simply indicates that choosing between that option and the basic alternative are unaffected by the variable.

Table 10: Hypothesis result

Hypothesis	Explanatory Variables	Export Mode				Intermediate Mode				Decision
		B	X ²	df	Sig.	B	Wald	df	Sig.	
H1	Characteristics of Product	0.301	4.956	1	0.026	-0.27	0.339	1	0.561	Supported*
H2	Size of the Firm	0.7	4.095	1	0.043	0.066	5.596	1	0.018	Supported
H3	International Experience	0.301	3.025	1	0.082	0.138	3.565	1	0.059	Supported
H4	Networks	-0.443	0.476	1	0.490	-0.218	0.107	1	0.744	Not Supported
H5	Size of The Market	0.244	5.411	1	0.020	0.179	4.495	1	0.034	Supported
H6	Intensity of Competition	-0.198	0.126	1	0.176	0.75	1.643	1	0.200	Not Supported
H7	Market Infrastructure	0.206	4.709	1	0.030	0.484	3.51	1	0.061	Supported

Getie Andualem Imiru
DETERMINANTS OF MULTINATIONAL COMPANIES' CHOICE OF
MARKET-ENTRY MODE FOR OPERATING IN ETHIOPIA: AN EMPIRICAL STUDY

H8	Cultural Distance	0.433	2.967	1	0.085	0.067	4.546	1	0.033	Supported
H9	Market Barriers	0.248	0.182	1	0.670	-0.327	0.323	1	0.570	Not Supported
H10	Tacit Nature of Know-how	0.486	0.42	1	0.517	0.083	0.011	1	0.916	Not Supported
H11	Opportunistic Behavior from the Export Intermediary	-0.734	2.253	1	0.133	-0.143	0.082	1	0.775	Not Supported
H12	Degree of Risk	0.384	0.594	1	0.441	-0.64	1.664	1	0.197	Not Supported
H13	Flexibility	-0.636	0.686	1	0.408	-0.284	5.803	1	0.016	Supported*
H14	Level of Control	0.173	3.261	1	0.071	0.932	3.744	1	0.053	Supported
a. The reference category is: Hierarchical Modes.										
*Partially support the hypothesis										

7. Discussion of the hypothesis

The 14 hypotheses of the study, which were developed and tested following a thorough literature analysis, are presented in relation to results from earlier studies.

H1: The product/features service's influences the choice of export and intermediate modes of entry over hierarchical modes in a positive and significant way.

The study's findings are supported. At a significance level of 10%, product qualities considerably and favorably affect the decision between the export method of entry and the hierarchical style of entry. The findings of this study show that the adoption of a more robust control entry mechanism is connected with a high level of product differentiation and complexity (Root, 1994).

H2: Size of the firm positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The hypothesis of this investigation was verified. The choice of Export and Intermediate mode of entry over Hierarchical form of entry is positively and significantly influenced by the size of the company at the 5% significance level. This is in line with research by Koch (2001) and Root (1994) that found that SMEs with limited resources opted for solutions with less control and resource commitment when looking to expand internationally.

H3: International experience positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The study's assumption is supported. At a 10% level of relevance, international experience has a positive and significant impact on the decision to choose the export and intermediate modes of entry over the hierarchical way of entry. The findings of this analysis are consistent with earlier studies (Chen & Mujtaba, 2007). Companies with

global experience are more inclined to invest more in the global market. It also consistent with Koch's (2001) finding that the firm's future entrance mode was influenced by past experience with a particular entry approach.

H4: Network positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

This hypothesis is not supported by the actual data. The network has a negative and negligible impact on the decision to choose Export and Intermediate mode of entry over Hierarchical method of entry. This result agrees with Ripollés et al. (2012), who assert that networks enable businesses to make bigger commitments to the host nation. Networking within the company is an important tool that influences the method of market entry chosen (Johanson & Vahlne, 2003; Wan & Lowe, 2007).

H5: Size of the market/market potential positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The study's hypothesis is supported by the empirical data. At a 5% significance level, the market size has a positive and significant impact on consumers' decisions to choose an export or intermediate mode of entry over a hierarchical one. This research backs up Koch's (2001) contention that a company is more motivated to invest in the international market since there is a higher opportunity for expansion and a broader target market.

H6: Intensity of competition positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

This hypothesis is not supported by the evidence. The choice of Export and Intermediate mode of entry over Hierarchical form of entry is influenced by the intensity of competition in a negative and insignificant way. This finding is in line with the findings of Chen & Mujtaba (2007) who observed that the number of competitors a company has in a foreign country can be used to determine the intensity of competition. The level of competition in the target market influences entry mode strategies. This finding is consistent with the findings of Hollensen (2011) who says that when international market competition is intense, the market becomes less profitable and does not attract significant resource commitments. As a result, businesses seek market entry options that give them less control and require less resource commitment.

H7: Market infrastructure positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The study's hypothesis is substantiated by empirical evidence. Market infrastructure has a positive and significant influence on the choice of Export and Intermediate mode of entry over Hierarchical method of the entrance at a 10% significance level. This finding is backed up by Root (1987), who claims that an exporting

corporation may choose to use a branch/subsidiary entry strategy if its marketing infrastructure is lacking or of poor quality.

H8: Cultural distance positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

This hypothesis has been shown to be valid. Cultural distances significantly and positively affect the preference for Export and Intermediate modes of entry over Hierarchical forms of entry at a level of significance of 10%. This is consistent with (Root, 1994), who suggested that the corporation will choose entrance tactics with lesser control and resource commitment the larger the perceived cultural difference between countries.

H9: Market barriers positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

Empirical data do not support this hypothesis. This study's conclusions concur with those of Koch (2001), who claimed that these constraints made it challenging for foreign businesses to operate in the host nation. Additionally, it is consistent with the findings of Hollensen et al. (2014), who discovered that as trade barriers are lifted or diminished, more businesses are eager to grow globally. However, businesses will be forced to employ a lower-control entrance approach if the government of the host nation places onerous restrictions on foreign ownership (Brouthers, 2002).

H10: Tacit nature of know-how positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The results did not support this hypothesis. The preference for Export and Intermediate modes of entry over Hierarchical modes of entry is positively and insignificantly influenced by tacit knowledge. The study's conclusions are in line with those of Sanchez-Peinado et al. (2007), who assert that tacit knowledge is more difficult to codify and patent than explicit knowledge, making it more difficult to transmit through contracts with outside partners.

H11: Opportunistic behavior positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

Empirical evidence does not support this hypothesis. Opportunistic behavior has a negative and minor influence on people's decisions to choose the Export and Intermediate modes of entry over the Hierarchical style of entry. The results of this study are consistent with those of Hollensen (2011), who argued that opportunistic behavior has a detrimental and minimal effect on individuals' choice for export and intermediate entry over hierarchical entry. In this context, there are two perspectives on the opportunistic behavior of the export intermediary: in the majority of producer-export intermediary agreements, a share of sales and marketing expenses have been agreed upon. Because of this, the producer might be able to utilize the export intermediary's

claims of excessive sales promotion activities, like invoice manipulation, to support a higher payment to the export intermediary.

H12: Degree of risk positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

Empirical data do not support this hypothesis. The decision to choose the Export and Intermediate modes of entrance rather than the Hierarchical type of entry is somewhat influenced by the level of risk. The findings of this study corroborate those of (Brouthers & Nakos, 2004), who claimed that people's perceptions of the threats posed by the host country have a major influence on their decisions regarding entrance methods. The findings of this study are in line with those of (Agarwal & Ramaswami, 1992), who claimed that political and economic aspects of the host nation, such as the political system and currency instability, are what lead to nation hazards. A company's control and commitment mode should be reduced when national dangers are high (Brouthers & Nakos, 2004).

H13: Level of control positively and significantly influences the choice export and intermediate mode of entry over hierarchical mode of entry.

The empirical data support this hypothesis. Level of control considerably and favorably influences the decision to choose Export and Intermediate mode of entry over Hierarchical method of entry at a 10% significance level. The findings of this study concur with those of Cert and March (1992), who examined Multinational corporations that usually attempt to control the operations of their overseas company divisions in order to manage and decrease the risks involved with global expansion. Usually, control and resource deployment are related. As a result, entrance strategies that need little in the way of resources, like indirect export, provide a good or service with little to no control over how it is marketed abroad.

H14: Flexibility positively and significantly Influences the choice Export and Intermediate mode of entry over Hierarchical mode of entry.

The study's hypothesis had no effect on people choosing the Export and Intermediate modes of entry over the Hierarchical modes. The choice of export and intermediate mode of entry over hierarchical way of entry is negatively and significantly impacted by flexibility at a 10% significance level, nevertheless. The findings of this analysis are consistent with those of (Kotabe M., Helsen K., 2016), who claimed that "*wholly owned subsidiaries are harder to divest and hence offer very less flexibility compared to alternative entrance choices.*"

8. Conclusion

What factors influence entrance mode decisions and which entry modes are more suitable for foreign companies to enter Ethiopia? is the major study topic. In the current study,

the researcher sought to identify the primary variables influencing the firm's selection of entrance modes. The Transaction Cost Theory, Resource-Based Theory, Eclectic Paradigm (OLI Model), and Institutional Theory are the four key ideas that this study built its framework on. The researcher created a list of potential influencing elements that could affect the decision regarding the entry method, including Internal, External, Transaction-Specific, and Desired Entry Mode Characteristics. The results demonstrate that firm size, international experience, and network have the greatest impact when internal factors are taken into account in our qualitative case studies.

The mode of market entry chosen by a company is defined as a long-term commitment to operating in a target market while utilizing a particular market participation approach. We looked into the three main ways that foreign businesses join the Ethiopian market. Exporting (Indirect Exporting, Direct Exporting, and Cooperative Export Marketing); Intermediate Entry Modes, which included a range of agreements including Management Contracts, Licensing, Franchising, Turnkey Contracts, Joint Ventures, and Technical Know-how or Coproduction Arrangements; and Hierarchical Modes, which included a range of agreements including Domestic-based Sales Representatives, Foreign Sales, Branches/Sales and Production Subsidiaries, and Establishment.

At a 5% level of significance, the size of the firm and the size of the market have a positive and significant influence on the decision to choose the export and intermediate modes of entrance over the hierarchical modes. However, at a 10% significance level, factors such as global experience, market infrastructure, cultural distance, flexibility, and degree of control are favorably and significantly impacting the decision to choose the export and intermediate modes of entrance over the hierarchical modes. Similarly, at a 10% level of significance, product attributes are favorably and significantly impacting the decision to choose the Export method of entry over the Hierarchical form of entry. On the other hand, at a 10% level of relevance, flexibility is negatively and considerably influencing the decision to choose an intermediate method of entry over a hierarchical form of entry.

9. Implications of the study

9.1 Implications for foreign companies operating in Ethiopia

When entering diverse international markets, it is essential to be aware of the many entrance modes and the factors that affect entry mode selection. As a result, businesses interested in tapping into markets in other nations are recommended to conduct studies before doing so. This study has improved our understanding of how internal and external factors affect the choice of foreign market entry methods. Since it is crucial to have clearly articulated objectives and a clear assessment of the current situation, managers must have a clear plan of market entry tactics when entering a new foreign market. When choosing a target for market entry modes, it's crucial to take both internal and external factors into account.

9.2 Implications for local companies

A liberal economic policy has been adopted by the Ethiopian government, which has allowed multinational corporations and foreign capital to flood the country. After originally emerging, the likes of the U.S., Europe, Japan, Chinese, Indians, UK, Turkish giants, etc., swiftly surpassed local competitors and seized nearly every market. Modern items and technologies were available from foreign companies, together with vast financial resources, strong brands, and the greatest management techniques available anywhere around the globe. Poor countries, like Ethiopia, frequently succumbed to pressure from developed nations and allowed the entry of multinational corporations, although they did so gradually and almost reluctantly. Local businesses would be completely destroyed by the multinational Goliaths. The local businesses must learn to produce a wide range of products and develop offers that are suited to a number of niche markets.

9.3 Implications for government

A nation's government has a big impact on whether or not enterprises choose to do business there. In this regard, it is desirable for the Ethiopian government to carry out additional research on factors influencing entry mode choice prior to companies arriving in Ethiopia, as this would help companies understand the distinctive components that determine the method they will use to enter the market.

9.4 Direction for future research

Despite the abundance of information on the internationalization process, entrance strategies, and factors to take into account before entering a new market, it is challenging to cover all of them in a single study. As a result, researchers who are interested in this area of study might make this assumption and add extra factors to their studies. In addition to internal organizational factors, external factors, transaction-specific factors, and desired entry mode characteristics, the researcher also used generalized forms of independent variables. It will be important to carry out independent research on these variables as a result.

Because the choice of entry mode is made directly by owners and/or managers, either individually or collectively, it has a direct impact on how individuals behave and make decisions. This is because individuals' desires, imperfect rationality (due to incomplete information, limited computational skills, and uncertainty), the specific roles provided by the organization, and the situational environment surrounding them all have an impact on and limit how individuals behave and make decisions. More investigation is therefore needed on the behavioral role of decision makers.

The selection of the market entry mode was mainly viewed as a one-stage or static decision-making problem, with the results of those decisions serving as the main criterion. However, it is frequently a multi-stage challenge that involves at least a goal definition, alternative strategy identification, and a process for choosing the best or worst way. Furthermore, businesses that have started to break into a foreign market may

change their original strategy due to learning effects or unanticipated developments. Dynamic models that additionally take into account longitudinal factors are preferred in order to fully understand decisions about foreign market entrance modes.

One of the main problems is that choosing a market entry strategy is ill-defined, difficult, and flexible. Numerous factors and how they interact affect it. Furthermore, the same causes may result in different results in varied contexts. People who approach the topic with different expectations could come to different conclusions. In empirical studies, different samples chosen, different time periods explored, different methodologies used, or even different analyst talents may result in conflicting outcomes. Therefore, a thorough comparison from numerous angles is also necessary. Additionally, future research should widen to include service and other industries, as this study narrowed its attention to manufacturing companies only. The specialized setting and a small number of case study businesses are connected to the research outcomes.

Conflict of Interest Statement

The author declares no conflicts of interest.

About the Author

With more than 22 years of teaching experience, I am an Associate Professor of Marketing Management at Addis Ababa University, Ethiopia. In addition, I conduct research and provide marketing management consulting services to a variety of businesses. I've been advising Masters Students for the past 18 years, and I've also been guiding PhD students for the past 12 years. Ultimately, I have over 20 years of experience as a researcher, trainer, and consultant.

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