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The Influence of Entry Mode Decisions on International Marketing Policies. A Framework

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Abstract: Several studies on firms' marketing strategy in foreign markets revealed inconsistent results regarding the relationship between entry mode strategies and the adoption of marketing policies. This inconsistency was due to the diversity of assumptions used for the conceptualization of the influence of entry modes on marketing strategies. The purpose of this paper is to offer a conceptual model that can support the analysis of how the firm's choice of entry mode may influence the adoption of marketing tools in the selected market.

Keywords: Entry mode; International strategy; international marketing; foreign markets

JEL Classification: M16; M11

1. Introduction

In recent years the question of marketing program adaptation to foreign market has become a relevant subject of discussion (Zou & Cavusgil, 2002).

Many researches have investigated factors that may influence the adoption of marketing tools by the four dimensions of the marketing program: product, promotion, price, and distribution. Factors like type of product, technology, international experience, structure and nature of foreign competition, organizational factors, political factors, market infrastructure, and cultural/environmental factors have been identified as the main influencing drivers for firms' decisions (Jain 1989; Ganesh et al., 1996; Chung & Wang, 2006; Alimiené & Kuvykaité, 2008; Birnik & Bowman, 2007; Theodosiou & Katsikeas, 2001; Katsikeas et al., 2006; Samiee & Roth, 1992; Özsomer & Simonin, 2004; Theodosiou & Leonidou, 2003; Viswanathan & Dickson, 2007).

The tendency to use a relevant number of independent variables in the analyses, as well as the adoption of sophisticated statistical methodologies have not, however, contributed to the understanding of the influencing factors of marketing decisions. Some authors (Ryans et al., 2003) suggested that a more consistent conceptual base should be necessary for this topic and that assumptions should be review by scholars.

The objective of this paper is to identify a conceptual framework as a base for the analysis of the relationship between entry mode strategies and marketing activities. According to literature, the main strategic decisions in the internationalization of firms are those related to the market selection and entry mode choice (Douglas & Craig, 1989; Agndal & Chetty, 2007; Musso & Francioni, 2010; Sakarya, Eckman, & Hyllegard, 2007). Indeed, the decisions relating to the international market selection (Ellis, 2000; Sakarya, et al., 2007) and entry mode selection (Brouthers & Nakos2004; Lu, 2002; Root, 1998) are considered to be the most critical for a firm's success abroad (Agndal & Chetty, 2007).

Even if market selection decisions and entry mode decisions are strictly connected, the analysis that follows will focus on the choice of entry mode and its influence on marketing policies.

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2. Theoretical Background

Entry mode choice has been considered one of the most important research fields on internationalization of firms (Burgel & Murray, 2000; Jones, 1999). In regard to entry mode selection process, some studies have illustrated that a the majority of firms have a passive behavior, particularly those of smaller size (Musso and Francioni, 2012). In this case, entry methods are not actively chosen by firms, but instead, are a consequence of agreements with foreign partners (in most cases importers and local distributors) or the fulfillment of unsolicited orders. Thus, there is no real choice and the adopted entry mode is the result of a passive response to an external stimulus.

However, there are firms exhibiting an active behavior by carrying out a systematic comparison of alternative entry modes and analyzing many factors prior to making a decision. With regard to the active behavior, several theoretical perspectives have been used to explain companies' choice of foreign operation methods (Welch, Benito, & Petersen, 2007). Among the most commonly adopted theories are the transaction cost analysis (TCA), the resource-based view, the institutional theory, and the Dunning's eclectic theory (Brouthers and Hennart, 2007).

For instance, Brouthers, Brouthers and Werner (1996) and later on Brouthers and Nakos (2004), adopting the Dunning's eclectic perspective, have analyzed if ownership, locational, and internalization advantages influence the entry mode choice of firms. Ekeledo and Sivakumar (2004) developed a conceptual framework, under which they created and tested a set of hypotheses to explain the firm's entry mode choice from a resource-based perspective. Moreover, Meyer (2001), applying the TCA, examined the impact of transaction costs and institutions on entry mode selection. Finally, Uhlenbruck et al. (2006), using the institutional theory, have investigated how corrupted local governments could influence entry mode choice decisions (Brouthers & Hennart2007).

Entering an international market is a choice which is based on an evaluation of sales potential as well as the risk and costs of operating in the foreign market. Within this process, market segmentation represents a key step prior to the marketing planning decision (Griffith, 2010).

For the planning of international marketing activities, the firm must identify its target market segments. International market segments have been described as defined and similar clusters of customers (final or intermediate) across national boundaries that have the same characteristics and are identified by similar criteria (Samiee & Roth, 1992).

According to this perspective, a marketing strategy is based on market definition and market segmentation. Within a marketing strategy, entry mode can be defined as an institutional arrangement for organizing and conducting international business transactions, such as exports, contractual agreements and direct investments (Root, 1994).

Contractual entry modes are defined as long-term agreements between an internationalizing firm and a subject in a foreign target country that involve the transfer of technology or human skills from the former to the latter (Root, 1994).

Entry modes have been classified depending on the degree of resource commitment (Johanson & Vahlne, 1991) and control (Anderson & Gatignon, 1988). These factors reflect the firm's ability to influence and to take decisions related to the market development. Some scholars (Laroche et al., 2001; Solberg & Durriu, 2008; Quester & Conduit, 1996) suggested that degree of centralization an control may influence the level of standardization of the marketing mix.

3. Influence of Entry Mode on Marketing Mix

According to marketing methodology (Czinkota, Ronkainen and Zvobgo, 2011), the planning of marketing policies is based on the firm's overall strategic decisions. Kotler et al. (2005) suggested that the global marketing program is influenced by the choice of entry mode. Following this line, it is possible to argue that the level of standardization or adaptation of marketing mix depends on the chosen mode of entry. Specific characteristics of the single entry mode can stimulate, or preclude, the adoption of a specific marketing program.

Indirect entry modes

A first key distinction is that between indirect exporting and direct exporting. Indirect exporting implies that the responsibility for, promotion, sales and most of the related marketing activities is transferred to an external organization (export agents and/or foreign distributors). Indirect exporting is most likely to be appropriate for a firm with limited international expansion objectives (Douglas & Craig, 1995), lack of resources and limited organizational effort. Thus, the firm tends renounce to the adoption of marketing program or to adopt a standardized approach (Griffith et al., 2003). According to this assumption, it is possible to introduce the following proposition:

> P 1. *Indirect exports lead to a limited adoption of marketing programs. In case are adopted, marketing programs tend to be standardized.*

This proposition can support the analysis of the effects of indirect entry modes on the use of marketing policies (marketing mix) and the related level of control. Indirect exporting involves a transfer of the marketing activities to an external agent, who might find it convenient to adapt at least some aspects of the program, if any, or can develop autonomous programs. However, some aspects of the product such as product quality and performance will be less adapted compared to other product elements. Thus, it is possible to state that:

> P 2. *Indirect exports lead to a standardized product policy and to adapted price, promotion and distribution policies.*

Direct exporting brings to establish an own export sales organization, which has the responsibility for exporting functions, including marketing programs. Compared to indirect exporting, the firm can acquire more information about the customers and competitors in the foreign market.

This learning process can facilitate the development of a local marketing strategy and a better adaption of the marketing mix tools (Solberg, 2000). This approach emphasizes the knowledge about local market and, on this basis, a more autonomous marketing strategy, even if controlled by the parent headquarter. As a consequence:

> P 3. *Firms entering a foreign market through a direct export entry mode are more likely to adopt a specific marketing program with adapted marketing tools.*

Despite a direct entry mode can lead to an adapted marketing mix, product policies tend to remain under a centralized control with less possibility of adaptation, due to changes in production processes and increased production costs that an adaptation may require. According to this assumption, we can state that:

> P 4. *Firms entering a foreign market through a direct export entry mode tend to adapt product policies to a lower level than price, promotion and distribution policies..*

Partnerships

Contractual entry modes have less homogeneous influence on marketing programs. In franchising the franchisor transfers to the franchisee a commercial know-how and the right to run a business under the franchisor's name. Franchising represents an entry mode which is feasible for marketing program standardization. In contract manufacturing the internationalizing firm contracts out production to a local manufacturer but retains control of marketing. Also in this case, the contractual agreement is feasible with respect to standardization of marketing programs. On the other side, joint ventures involve a co-operation between two or more firms with a complementary role of partners. Usually, the local partner has a relevant role in managing market related activities, due to its knowledge of the local environment. This implies that marketing program may be suited to the local market, suggesting that:

> P 5. *Contractual entry modes have a inhomogeneous influence on marketing programs. Franchising and contract manufacturing lead to more standardized policies than joint ventures.*

The influence of contractual entry modes on product policies depends on the content and form of the contract. However, the level of product standardization is supposed to be higher than for the other policies of the marketing mix (Chung & Wang, 2006). In the case of franchising and contract manufacturing the possibilities to adapt product policies to local market are lesser than for joint ventures. As a result, it can be stated that:

> P 6. *Contractual entry modes allow lesser product adaptation for franchising and contract manufacturing than for joint ventures.*

Direct investments

In establishing a wholly owned presence in a foreign market a firm can either acquire an existing company or making a greenfield investment. Acquisition enables rapid entry and may provide access to distribution channels, to an existing customer base, and in some cases may provide an established brand name or corporate reputation. Under this case the firm is likely to adapt to the acquired company's assets and skills, and also to its marketing programs. However, acquisition may imply difficulties of integrating the acquired business into the parent system (Gielens & Dekimpe, 2001; Jemison & Stikin, 1986), and such difficulties may involve marketing programs.

With a greenfield investments the firm needs to establish all the operations without the possibility to exploit a previous experience. There is no local expertise and marketing strategy that can be used and a marketing program need to be elaborated. Literature suggests that a foreign direct investment strategy based on greenfield can facilitate the development of a globally integrated system of production, logistic and marketing (Douglas & Craig, 1995). Accordingly, standardization is more likely to be selected within this entry mode strategy::

> P 7. *Greenfield investment as entry mode are more likely to bring to a standardization of marketing programs than for acquisition*.

4. Conclusions

While previous studies have identified a large number of factors of influence on international marketing programs, in this study the relationship between entry mode strategies and marketing mix activities has been analyzed. The more relevant influence is on the level of adaptation/standardization. The ability to control marketing mix variables is likely to increase the likelihood for standardization in case of direct export and contractual entry modes such as franchising and management contract compared to joint venture. Moreover, even though direct investment implies high control, an adaptation approach could be more feasible in case of acquisition due to existing marketing assets and skills, compared to greenfield operations.

According to the propositions introduced in the previous section, Table 1 provides a framework for the analysis of the influencing factors on international marketing policies, taking into account of the entry mode strategy adopted by firms.

Table 1. Relationship between entry modes and marketing programs in foreign markets

Entry modes		No Mktg programs	Product	Price	Promotion	Distribution
Indirect entry modes	Indirect exports	X	S	S (A)	S (A)	S (A)
	Direct exports	X	S (A)	A	A	A
Partnerships	Franchising		S	S (A)	S (A)	S (A)
	Contract manufacturing		S	S (A)	S (A)	S (A)
	Joint vrentures		A	A	A	A
Direct Investments	Acquisitions		A	A	A	A
	Greenfield investments		S	S	S	S

A: adaptation
S: standardization

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