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# SELECTION OF METHODS OF PASSAGE

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With the increasing globalization and a competitive world internalization of firms is a norm now days. In the world of dynamic competition choice of mode of entry has become a quite complex decision because a MNC is exposed to volatility at 3 levels i.e., national (home country), international (host country) and global (international organizations).

Entry into a foreign market means creating a presence in foreign country by establishing either production facilities or marketing facilities or both. A company can enter foreign country via different international entry modes which are chosen on the basis of number of factors like exporting, contractual and equity.

- **EXPORTING**

Exporting involves selling of goods in foreign markets. When goods are sold directly to the customers it is known as direct exporting. When an intermediary is involved then it is known as indirect exporting

**Advantages -**

- Easy access to foreign market in less time.
- Exporting involves minimum risk
- It can help in seeping economies of scale by centralising production.

**Disadvantages-**

- Export is affected by various trade and non-trade barrier.
- It does not provide control to the firm.

- **CONTRACTUAL**

## LICENSING

Licensing is defines as a mode one company (licensor) grants right to use its intangible assets such as patent to incense in return of a royalty fee. It is generally used in production and manufacturing industries.

**Advantages-**

- It can provide easy access to foreign market with lower resource commitment.
- It helps a firm a testing a market before entering on a large scale.

**Disadvantage-**

- Risk of dissemination of property rights
- It does not provide control over foreign markets.

## FRANCHISING

Franchising is an agreement whereby franchisor grants right if intangible asset such as trademark and patent in return of a fixed payment or a percentage of sales. Franchising has to follow the laid rules of fee operation.

**Advantages-**

- It is an easy mode of entering involving less time.
- It provides some control to firm over quality

**Disadvantages-**

- Risk of dissemination of property rights
- Quality control and maintenance is difficult due to lack of inspection.

## MANAGEMENT CONTRACT

It is an agreement whereby one company agrees to provide management expertise or some specialised knowledge to other company for a specialised period in return of a fee.

**Advantages-**

- It can help a firm to earn return from its intellectual knowledge.
- It involves lower resources commitment

**Disadvantage**

- It may lead to unintentional transfer of expert knowledge to the other foreign firm.
- It provides limited expansion in foreign country.

## TURNKEY PROJECT

Turnkey project is an agreement whereby one company agrees to build operates and transfers (BOT) a project to another company. It is common in oil refinery and other big and heavy construction project involving complex technology.

**Advantages-**

- Returns can be generated by using this mode when it is difficult to transfer complex knowledge through other modes.
- Other firms can gain from the technology which is widely not **available.**

**Disadvantage**

- Handing keys means transferring of knowledge unintentionally.

- **EQUITY**

Equity mode includes -

FDI (foreign direct investment) - FDI involves establishing production facilities in foreign country by making equity investment.

**Advantages-**

- It provides control over firm's foreign operation.
- It helps firm in reaping locational advantage.

**Disadvantage-**

- It involves high risk.
- Country's rules and regulation may not allow for FDI in firm's business of operation.

## JOINT VENTURE

Joint venture involves making presence in foreign market by collaborating with partners in foreign country.

**Advantages**

- It provides access to local knowledge of partners which help in overcoming cultural barrier.
- It provides benefit of synergies.

**Disadvantage**

- Internal conflict of joint venture can lead to collapse of joint venture.
- Risk of losing knowledge and technology to joint venture partner.

As indicated by root (1994), a global passage mode is to make the likelihood by organizing organization's items, innovation, human aptitudes, administration or different assets to go into a remote nation.Entry mode choice affects risk level, resource commitment and MNCs performance in both short and long run.

A wide range of modes are available which include exporting ( direct & indirect exporting), licensing, franchising, turnkey projects, management contracts joint venture(equity JV & contractual JV), equity investment (Greenfield & acquisition).this modes can be differentiated from each other on a number of factors such as degree of control, risk & return for instance exporting involve least control, risk and return while wholly owned subsidiary lies on other extreme and provides highest control and return but increases level of risk.

These mode are selected on the basis of a wide range of factors such as political environment of host country, cultural differences and need of local knowledge, proprietary assets, barriers to entry in host country, global strategic objectives, control desired, risk perception and so on.

Choice of mode of entry is such a crucial decision that it can be reason of of success of a firm or its failure as is evident from the recent closure of McDonalds outlets indicate.

Nandini (2014) McDonald's restaurant is operated by a franchisee, an affiliate or corporation itself. When it entered India in 1994 it entered
With a unique 3 legged stool model consisting of franchisee/owner, supplier & employees in India. The unique strategy adopted by McDonald is that it signs a joint venture with a local partner which acts as a franchisee also. Local partner develops marketing plan to ensure adaptability and suitability to local culture. Employees selected and recruited are also Indians. This unique operation mode strategy and balance of interest was the reason behind its success.

But the recent closure of its outlet in Delhi is due to its Conflicts with JV partners which begin with the removal of Vikram Bakshi from the post of managing director of CPRL in 2013.These issues even impacted expansion plans of MacDonald which is evident from the fact that only 1 outlet has been opened since 2013.Quality control and brand image is also a issue generally faced by franchisor in franchising contracts. Problem of quality control at McDonalds Indian outlets is quite evident from various cases of insects and worms being found in various items over the last few years make quality norms and standards being followed questionable.

## Theory and model on entry mode choice

Anderson and Gatignon (1986) integrated literature on entry mode to develop a theory for entry mode base on transaction cost framework. The focus is determine entry modes that lead to success in long run based on risk-return trade-off. They examined mode choice on the basis of control because it is a determinant of both risk and return. They argued that transaction specific assets, external uncertainty, internal uncertainty, free-riding potential affect degree of control firm desire and thus its long term efficiency. They provide various propositions for entry mode choice by taking control as basis (high, medium, low) and taking transaction specific assets, external uncertainty, internal uncertainty, free-riding potential as determiners.

Kumar and Subramaniam (1997) proposed a contingency framework for entry mode choice by considering alternative strategies under constrained situation. It explains decision making in case of time and resource constraint by taking cybernetic strategy (satisficing strategy).cybernetic strategy considers only few alternatives at a time for decision making. It considers characteristics of decision maker (knowledge, ability & motivation) quality of information available decision problem and decision environment to explain the problem of mode choice. Based on these criteria it develops a hierarchical structure for mode choice in which only few critical factors are considered at every level. It is concluded that a framework like this can be used by small and medium sized business also because they generally face time and resources constraint.

Pan and Tse (2000) proposed a hierarchical model of entry mode and empirically tested it using logistic regression. They proposed a hierarchical model of entry mode choice by taking equity and non-equity at key level. Equity modes include EJV & WOS and non-equity includes export & contractual agreement. They empirically tested this model by examining impact of macro and country specific factors at different level. They found that all the macro level factors influences entry mode choice at key level but doesn’t affect choice within the group i.e., between EJV & WOS and export & contractual agreements. They concluded that entry mode choice follows a hierarchical model.

Chen and Hu (2001) examined determinants of entry mode choice using transaction cost framework and its impact on performance (china) using multinomial logit, one way ANOVA, chi- square test techniques. It is concluded that factors (proprietary assets, host country size & potential, cultural distance, capital intensity) determined using transaction cost framework do affect entry mode choice in a developing country like china. They also concluded that firms that choose entry mode based on transaction cost framework out performed firms whose mode was selected ot1herwise.

Sharma and Erramilli (2004) developed a resource based view for selecting entry mode choice. They provide a comparative view of earlier theories and their lack of ability to explain various forms of entry modes to propose a resource based approach for mode selection. They considered entry mode choice from the perspective of firm's resource endowment and employment. They provide various proposition for different modes based on firm's likelihood of establishing competitive advantage in production or marketing in host country and its ability to transfer advantage generating asset in production or marketing to host country. Based on different combination of these factors they explained choice of direct exporting, indirect exporting, contractual modes, joint venture and wholly owned subsidiaries.

Meyer et al. (2009) explained entry mode choice by integrating institution and resource based view measured using multinomial Logit regression technique. They explained both independent and joint impact of institution and resource based view on entry mode choice. Strong institutions facilitate Greenfield or acquisition mode and if a firm needs local resources then preferred modes are JV or acquisition but this doesn't provide strong support in case of intangible assets. They concluded that combination of institutional and resource based view encourages acquisition and Greenfield over JV but this does not affect entry mode in case of tangible resources.

Holtbrugge and baron (2013) examined impact of institutional differences on market entry mode choice in BRIC countries and its impact on market success measured using ANOVA & regression techniques. Institutional theory differentiates between activity mode (export or foreign production), ownership mode (WOS or joint ventures) and establishment mode (acquisitions or Greenfield) while making entry mode choice. They didn't find any support for preference of foreign production over export in BRIC countries, but firms adopting foreign production achieve greater market success. It also concluded that firms prefer JV over WOS in BRIC countries except china and Greenfield investment over acquisition but it doesn't affect market success. It further supported positive relation between years of operation and market success.

## CONCLUSION

Entry mode decision is a critical and complex decision which impact performance of a firm in both long and short term. Researchers have identified and examined impact of various factors affecting entry mode choice such as host country factors explains choice between foreign production and exporting ,institutional differences explaining choice between modes based on resource commitment. Other factors studies include global strategic factors, international risk etc. Research also provides new insights such as using governance quality as a proxy of external uncertainty and measuring political environment as a multi-levelconstruct.

Literature also support positive relation between modes selected based on different models such as transaction cost, extended transaction cost by including cultural and institutional factors and its performance. New models have been developed using existing literature for mode choice such as contingency framework and resource based view.

It can be concluded that entry mode choice is crucial to the success of a MNC as evident from the case of McDonalds.

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