Examining market entry mode strategies via resource-based and institutional influences: Empirical evidence from a region-within-country economy context

Aron O'Cass [a,1], Liem Viet Ngo [b,*], Nima Heirati [a,2]

[a] School of Management, Faculty of Business, University of Tasmania, Private Bag 84 Hobart, TAS 7001, Australia
[b] Australian School of Business, The University of New South Wales, Room 3023B, Level 3, Quadrangle Building, Sydney, NSW 2052, Australia

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ABSTRACT

This research has two major purposes. The first is to develop and test a framework for market entry mode choice drawing on the resource-based theory and institutional theory in the context of region-within-country from marketing perspective. On this issue resource-based influences and environment influences are key drivers of entry mode strategies. Specifically, the central proposition is that a firm selects market entry strategies that its resources (firm characteristics, product characteristics, and firm size) can support and this selection also depends on the firms' perception of two environments (home market characteristics and host market characteristics). The second is to test the theoretical framework within the special situation of Hong Kong firms' entry modes into Mainland China as a specific economic region-within-country context. A mail survey was used to gather data from 208 senior executives of Hong Kong firms undertaken. The results show that firm characteristics, product characteristics, home market characteristics, and host market characteristics (but not firm size) significantly influence the choice of equity mode entry mode strategies for firms from Hong Kong entering other economic zones within Mainland China.
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1. Introduction

The international market entry mode choice of firms has become a major field of interest in the international marketing (see Agarwal, 1994; Bradley and Gannon, 2000; Dow and Larimo, 2009; Malhotra et al., 2002; Mayrhofer, 2004) and international business (Agarwal and Ramaswami, 1992; Brouthers, 2002; Chan et al., 2006; Erramilli, 1996) literature. While the international marketing literature has devoted considerable attention to a range of issues related to entry mode, there are still gaps in the literature that this study seeks to address. First, the current literature places much emphasis on studying the entry mode strategy of firms (from a specific home country), who enter one or more international markets (host countries) (Ambler et al., 1999; Dow and Larimo, 2009). Within this domain, the psychic (i.e., cultural, language, institutional) distances between home and host countries has been identified as one of the main determinants of international market entry mode choice (Dow and Larimo, 2009). However, less attention has been given to market entry choice in the context of "region-within-country", where two specific regions (i.e., economic zone, provinces) within a specific country have substantial

psychic distance, and/or economic and political differences (Ambler et al., 1999; Ebrahimi, 2000). In this context, trade between regions (i.e., economic zone, provinces) within a country can be seen similar to trade between countries (Ambler et al., 1999).

Second, the current research has branched out into two major paths with regard to international market entry mode. The first path focuses on the application of individual theories to explain market entry mode choices including transaction cost theory, institutional theory, and the resource-based view of the firm (RBV) (Malhotra et al., 2002). However, some have argued that any single theory is incomplete in explaining the antecedents of international market entry mode choice (see Goodnow, 1985). The second path involves the application of eclectic theories to explain market entry mode choices that incorporate multiple theories into a unified framework (Dunning, 1980; Malhotra et al., 2002). Within this domain, the integration of institutional theory and RBV has increasingly received attention, particularly in the international marketing literature (see Ekeledo and Sivakumar, 2004; Malhotra et al., 2002; Meyer et al., 2009). Brouthers and Hennart (2007) state that a combination of RBV and institutional theory has the capacity to help advance our knowledge on entry mode research. Meyer et al. (2009, p. 76) advocate that "the strong exploratory and predictive power of institutions is further enhanced when the institution-based view is integrated with the resource-based view", especially in emerging economies.

In response to the call for more research on the integration of institutional theory and RBV (e.g., Malhotra et al., 2002; Meyer

* Corresponding author. Tel.: +61 2 9385 3605; fax: +61 2 9663 1985.
  E-mail addresses: aron.ocass@utas.edu.au (A. O'Cass), liem.ngo@unsw.edu.au (L.V. Ngo), nima.heirati@utas.edu.au (N. Heirati).
  [1] Tel.: +61 4 1777 1360; fax: +61 3 6226 2170.
  [2] Tel.: +61 4 5105 8252; fax: +61 3 6226 2170.

et al., 2009; Wright et al., 2005; Yamakawa et al., 2008), we attempt to improve knowledge about entry mode choice from a marketing perspective in two ways. First, as international market entry modes are a means of linking a firm's product(s) to international market(s), entry mode choice depends on not only the environmental characteristics of the country, but it also depends on the characteristics of a firm and its products (Kwon and Konopa, 1993). In this sense, this study contends that institutional theory and RBV complement each other. In a practical sense a major task for managers is to achieve congruence between the firm and its environment on strategic decisions such as market entry mode choice (resource–strategy–environment duality). As such, the two theories cannot be isolated in explaining entry mode choices, as a firm competes well in a setting in which there is a fit between its resources and external opportunities (Conner, 1991; Ekeledo and Sivakumar, 2004).

Second, to date little empirical work has been done on examining the relationship between the two theories in explaining entry mode choices of firms, particularly in the contexts of inter-province business where significant psychic differences between regions may exist. Our study aims to investigate the relationships between resource-based influences, environment-based influences and entry mode strategy in a region-within-country context. The focus here is on the China–Hong Kong context. In particular, "from an economic and even sub-cultural perspective, Hong Kong and Mainland China are separate territories significantly foreign to each other" (Child et al., 2002). Further, Hong Kong has been politically reunited with China and this integration of a free-market capitalistic system with a socialist–communist system is seen as the super paradox (Chan et al., 2006). Particularly, the "one country, two systems" ensures that Hong Kong and China remain distinct business environments in terms of legal and regulatory systems, resource availability, infrastructure and market efficiencies (Ebrahimi, 2000). These factors make the China–Hong Kong context a suitable context to represent our view of the region-within-country issue to explore the resource–strategy–environment duality.

By focusing on a specific region-within-country context we attempt to address the shortcomings in previous eclectic models that exclude potential impacts of both home and host environmental factors that are difficult to control as firms in these studies may enter different countries (Ekeledo and Sivakumar, 2004). We place our emphasis on a single home market and a single host market common to all firms, allowing the effect of institutional theory and RBV on entry mode to be controlled and studied more clearly.

2. Literature review and hypotheses

Trade between regions within some countries can be considered similar to international trade. For instance, China is about three times larger than the European Union in terms of territory and population. In many respects market entry into other regions within China has similar characteristics to market entry from a European country to other counties in Europe (Ambler et al., 1999). This can be seen within the China–Hong Kong context, which is considered as "one country, two systems" (Child et al., 2002; Ebrahimi, 2000).

Hong Kong has been politically reunited with China since 1997. This integration of a free-market capitalistic system with a socialist system is seen as the super paradox (Chan et al., 2006). Hong Kong is separated from Mainland by physical distance, and has substantial psychic distance (i.e., oral language, cultural history), and/or economic and political contexts (see Ambler et al., 1999; Ebrahimi, 2000). Hong Kong and China remain distinct business environments in terms of legal and regulatory systems, resource availability, infrastructure and market efficiencies (Ebrahimi, 2000).

Based on factors such as psychic, economic, and political differences, we reason that trade between China–Hong Kong can be seen as similar to trade between countries (i.e., UK and Germany) (see Ambler et al., 1999; Dow and Larimo, 2009). More to this point, China is an important export market for Hong Kong firms (HKYB, 2005), and Hong Kong is one of the largest single sources of external investment in Mainland China (accounting about 42% of the national total, with a cumulative value of US $290 billion). These facts combined with China's increasing expansion, growth, and focus of business attention indicate that the importance of selecting the most appropriate mode of entry is becoming an important concern for many Hong Kong firms.

Surprisingly, little attention has been given to issues surrounding the nexus between region and country in general and Hong Kong and Mainland China in particular in relation to market entry. The focus here is on Hong Kong as a single home market and China as a single host market. We develop our theory using an eclectic model comprising the integration of RBV and institutional theory to explain differences between various entry modes choices, in the China–Hong Kong context.

2.1. Integration between RBV and institutional theory

It has been asserted that the best market entry mode strategy is one that aligns the entrants' strengths and weaknesses with the environment characteristics of both home and host markets, as well as firm's characteristics (Brown et al., 2003; Canabal and White, 2008; Morschett et al., 2010). In particular, premised on the pursuit of environment–strategy duality, institutional theory suggests that host market characteristics and home market characteristics can have a significant influence on decision makers' entry mode selection (Brouthers et al., 2002; Cavusgil and Zou, 1994; Kwon and Konopa, 1993). However, the institutional theory largely ignores idiosyncratic internal characteristics as key contributors to entry mode choice (Zou and Cavusgil, 1996). It does not explain the heterogeneity among firms' entry mode choice, even though they may be operating in the same line of business or same foreign market, and thus facing identical environment influences (Ekeledo and Sivakumar, 2004).

In this sense, adding RBV helps address the shortcomings of institutional theory (Ekeledo and Sivakumar, 2004; Meyer et al., 2009). RBV suggests that firms adopt entry mode strategies that are or can be supported by their resources (Ekeledo and Sivakumar, 2004). Particularly, a firm's internal characteristics (i.e., firm characteristics, product characteristics, and firm size) are fundamental drivers of a firm's strategic behaviour (Zou and Cavusgil, 1996). To this end, we propose that an eclectic model comprising the integration of RBV and institutional theory may address the shortcomings of each theory and might provide better explanation for differences between various entry modes choices (Ekeledo and Sivakumar, 2004; Malhotra et al., 2002; Meyer et al., 2009), especially in relation to region-within-country entry model choices.

2.2. Market entry mode strategy

The mode of entry is a fundamental decision a firm makes when it enters a new market because the choice of entry will influence the entire firm's strategies on that market (Brown et al., 2003; Johnson and Tellis, 2008). The extant literature categorizes market entry mode strategies into two proto-typical types namely non-equity modes (i.e., exporting, licensing/contractual agreement and R&D contracts, franchising, strategic alliance) and equity modes (i.e., joint venture and wholly owned subsidiary) (Root, 1994). Both types of entry modes are dramatically different in terms of degree of resource availability and control (Agarwal and Ramaswami, 1992; Hill et al., 1990; Johnson and Tellis, 2008). Resource

availability is the financial and managerial capacity of a firm for serving a particular market (Agarwal and Ramaswami, 1992). Control is defined as authority over strategy and operations (Bradley and Gannon, 2000; Dong et al., 2008; Hill et al., 1990), and refers to a firm's need to influence systems, methods, and decisions in the foreign market (Anderson and Gatignon, 1986; Ekeledo and Sivakumar, 2004). In particular, equity modes that require high resource investment favour higher levels of control from firm headquarters (Canabal and White, 2008). Alternatively, non-equity modes require lower level of control since these modes of entry are much less resource intensive (Anderson and Gatignon, 1986; Canabal and White, 2008).

International marketing researchers have highlighted that a high degree of control over foreign operations can (1) facilitate the implementation of firms' international strategies; (2) protect firms' specific advantages, intellectual properties, and privacy; (3) improve operations and management (i.e., increasing operating efficiency, strengthening goal congruency); and (4) yield greater profits and higher returns (Dong et al., 2008; Johnson and Tellis, 2008). However, high level of control in an uncertain foreign environment may force firms to commit more resources, which can create switching costs, reduce the firm's ability to change, and increase risks (Dong et al., 2008; Ekeledo and Sivakumar, 2004). Therefore, assuming control can lead to both high returns and high risks (Dong et al., 2008). To this end, scholars have suggested that an optimum level of control enables firms to achieve the desirable outcomes (Meyer et al., 2009).

As shown in Fig. 1, we suggest that there is dual effect from environment-based influences and resource-based influences on Hong Kong firms' entry mode strategies into Mainland China. The strategy–resource–environment duality postulates that a firm selects its market entry strategies based on its resources (firm characteristics, product characteristics, and firm size) which can support its strategy and this selection also depends on its perception of environment characteristics (home market characteristics and host market characteristics). To this end we first develop a set of hypotheses on the basis of the duality principle. We then describe the empirical study and specifics of the research design in a selected region-within-country context. Finally, we conclude with discussions of the findings, implications, limitations, and conclusions to the study.

2.3. Resource-based influences and entry mode strategy

RBV suggests that the heterogeneity of resources explains a firm's strategic decision of market entry mode choice (Johnson and Tellis, 2008; Wei et al., 2005). Indeed, this strategic decision is the result of constraints placed on the firm by its resource endowments (Ekeledo and Sivakumar, 2004), and the degree of firms' control over their key resources (Johnson and Tellis, 2008). At one end of spectrum is the export as a typical non-equity mode, which has the lowest level of control. Licenses, franchises, and various forms of non-equity modes provide a progressively increasing degree of control for the firm. At the other end of spectrum, equity entry modes, such as wholly owned subsidiaries, favour the highest level of control and resources (Johnson and Tellis, 2008).

As the degree of control increases, the chance of success increases because the firm can deploy resources it has control over that are essential to success (Gatignon and Anderson, 1988; Isobe et al., 2000). Control over such properties gives a firm the freedom to deploy resources flexibly, thus enhancing its chances of success. In the context of new market entry, control provides two key benefits. Control safeguards key resources from leakage and it allows for internal operational control, which is essential to a firm's success (Lu and Beamish, 2001). In addition, a firm can control key complementary resources, such as access to local distribution channels, which can be important to its success in the host market. The mode of entry is a fundamental decision a firm makes when it enters a new market because the choice of entry automatically constrains the firm's marketing and production strategy. Entry mode also affects how challenges are addressed in relation to entering a new host market and how capabilities are deployed to market product successfully (Gillespie et al., 2007).

A review of the extant literature indicates that a firm's market entry strategy appears to be influenced by a number of key resource-based influences including specific firm characteristics, product characteristics, and firm size (Auklah and Kotabe, 1997; Cavusgil and Zou, 1994).

Firm characteristics. We define firm characteristics as a set of key assets and skills within a firm that constitute its sources of competitive advantage in its host markets and provide the basis for specific entry modes into new markets (Cavusgil and Zou, 1994). In this context, relevant assets and skills consist of a firm's
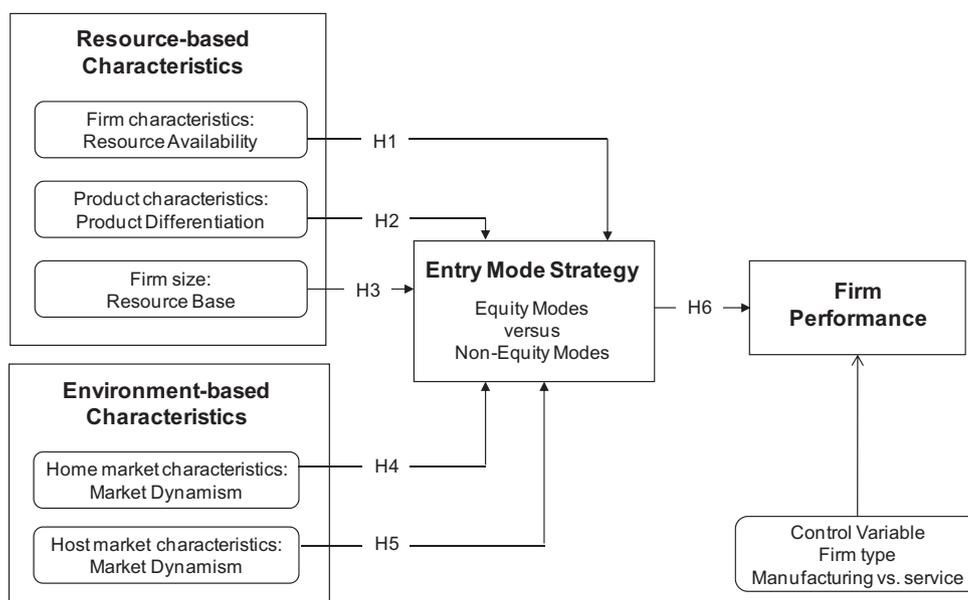

Fig. 1. Region within country resource–environment based impact factors on entry mode strategies.

relative position in the host market, experience in the host market, resources available for international development, extent of planning for the new market venture, management commitment, and resource commitment to the venture (Cavusgil and Zou, 1994). These specific sets of resources and skills in effect provide the firm with a set of firm specific characteristics that differentiate it from its competitors. For example, firms that possess high levels of resources availability relevant to the host market, and commitment of these resources to the venture are more likely to select equity ownership as an entry mode. Previous research indicates that firms usually formulate their market entry strategy through a conscious consideration of their resource commitment and managerial international experience (Agarwal and Ramaswami, 1992; Albaum and Tse, 2001). As such, firm specific characteristics profoundly influence the choice of market entry mode and ability to execute the selected entry mode strategy (Cavusgil and Zou, 1994). Therefore,

H1. A high level of resources and skills is positively related to the adoption of an equity mode entry.

Product characteristics. We define product characteristics as the inherent features of the product offering and the benefits provided to consumers through the product (Ekeledo and Sivakumar, 1998). Such characteristics constitute sources of competitive advantage in host markets and provide the basis for specific entry modes into the new market. In this context, product characteristics include the extent of product establishment, strength of product patent, training needs of sales force, degree of product uniqueness, degree of cultural specificity, and the degree of service and maintenance requirement for the product (Cavusgil and Zou, 1994; Ekeledo and Sivakumar, 1998). These specific set of product characteristics in effect provide the firm with unique product offering and the ability to differentiate its products from its competitors. Previous research on internationalization has found that product characteristics affect the way firms manage their international activities (Cavusgil and Zou, 1994), and allow firms to target a specific entry mode (Ekeledo and Sivakumar, 1998). Drawing previous literature, ability to develop differentiated products reflects the ability of the firm to create and market new and creative products (Agarwal and Ramaswami, 1992), which possess highly intangible components in terms of technological know-how (i.e., manufacturing processes) and marketing know-how (i.e., branding) (Bradley and Gannon, 2000). Such these differentiated products require substantial investment and training programs for employees across various disciplines (i.e., sales, marketing, manufacturing, R&D) to produce and market those products into a specific foreign market (see Agarwal and Ramaswami, 1992). To this end, the possession of differentiated product characteristics requires high level of resource availability and may make a firm select equity ownership as an entry mode (Anderson and Gatignon, 1986; Bradley and Gannon, 2000). Therefore,

H2. A high level of differentiation in product characteristics is positively related to the adoption of an equity mode entry.

Firm size. The literature often suggests that firm size is an important resource-based characteristic that influences entry mode choice (Ekeledo and Sivakumar, 2004; Westhead et al., 2001). Larger firms appear able to generate stronger competitive capabilities than smaller rivals for three reasons. First, larger firms have access to more resources availability, greater market power, and economies of scale and scope. Second, larger firms often possess a greater wealth of product-specific and marketing-specific knowledge. Third, larger firms are more capable of sustaining periods of negative performance on entry into a new foreign market.

The theoretical conjecture raised here is that small firms will not undertake resource intensive entry mode strategy, but will pursue low control-low cost entry (Sánchez-Peinado et al., 2007) into international markets, even region-within-country markets. Whereas, larger firms have a greater capacity to absorb costs and risks and invest in entry modes that are resource intensive (Ekeledo and Sivakumar, 2004). Thus, we see a resource discrepancy based on size which sees large and medium sized firms being more prone to engage in equity mode entry. Therefore,

H3. Firms size (larger firms) is positively related to the adoption of an equity mode entry.

2.4. Environment-based influences and entry mode strategy

There has been a growing focus on business environment as key factors that influence firms' strategic decisions (O'Cass and Ngo, 2007). A review of the literature indicates that despite a diversity of environment-based influences in explaining international entry mode strategies, research in this area has tended to concentrate on home-market characteristics and host-market characteristics separately (Brouthers and Hennart, 2007; Meyer et al., 2009). As such, while acknowledging that there are a wide range of environmental characteristics, we place our focus on home market characteristics and host market characteristics as the two key environment-based influences that might explain differences in entry mode choice among firms. It is the perception of these environment-based influences that managers react and respond to when deciding on entry mode strategies.

Home market characteristics. The extant international marketing literature has indicated that even in the multinational firms that operate in different geographic markets, the corporate strategies (i.e., choice of market entry) are shaped by national environment of their headquarters (Mayrhofer, 2004; Reich, 1990). Assuming home-market characteristic is a determinant of market entry mode preferences, the task is to identify home-market traits that enhance a firm's propensity to assume resource availability and control (Erramilli, 1996; Mayrhofer, 2004). The extant internationalization literature has used two avenues to identify home-market characteristic (Erramilli, 1996; Mayrhofer, 2004). One is cultural and psychological factors that may determine the behaviour of firms from a certain nation. The other is to examine economic factors that create competitive advantages for firms based in a particular country. According to Mayrhofer (2004), the majority of previous studies are grounded in identifying cultural and psychological factors to investigate the influence of home-market characteristic on choice of market entry mode. Further, researches seeking to identify economic factors commonly focus on home market size and financial factors (currency variation and lending rates) (Mayrhofer, 2004).

In our study, home market characteristics represent those characteristics in the domestic market that influence the firms' modes of international engagement (Weerawardena et al., 2006). We attempt to extend previous body of work by identifying the nature of home market characteristic in terms of market dynamism. In this context, home market characteristics include pace of technology change and technology development, changing customer preferences and new product search practices by customers, differences in product-related needs between new and existing customers, changing government regulations on product standards, pricing, advertising, and distribution of products/services (Weerawardena et al., 2006).

Firms operating in a dynamic home market, in which customers are highly demanding and sophisticated, often tend to exploit their current competitive advantage. Such advantages include economies of scale, know-how to compete, and ability to satisfy the most demanding buyers (Porter, 1990). According to Erramilli (1996),

firms originating from a dynamic home market may wish to exploit these competitive advantages for themselves by selecting equity mode strategies to enter international markets. Therefore,

H4. A high level of home market dynamism is positively related to the adoption of an equity mode of entry.

Host market characteristics. We define host market characteristics as those characteristics in the market being entered that pose both opportunities and threats for entrants (Cavusgil and Zou, 1994). Institutional theorists suggest that entry mode strategies tend to be conditioned by host market characteristics as the formulation of entry mode strategies reflect how a firm matches its strengths with market opportunities and neutralize its weaknesses to overcome market threats (Brouthers, 2002). In this context, host market characteristics include potential demand of host markets, sophistication of marketing infrastructure, similarity of markets, extent of legal and regulatory barriers, competitive intensity, product exposure, and brand familiarity in host markets (Brouthers et al., 2002; Cavusgil and Zou, 1994). Therefore, these characteristics identify the nature of the host market in terms of its dynamism.

The extant internationalization studies have suggested that the level of openness (lack of regulatory and other obstacles to entry of foreign firms) of host country may alter the level of foreign trade engagement (Brouthers et al., 2002; Johnson and Tellis, 2008). According to Johnson and Tellis (2008), higher level of openness may lead to stimulating demand by mounting variety of products, increasing competition on quality and prices, and upsurging intensity of competition. To this end, the higher level of openness likely leads to higher percentage of foreign investment. In such a dynamic context, consumers might prefer buying from well-known firms and long-term suppliers who originate from their own home country (Morschett et al., 2010). To this end, equity entry modes are more attractive when a host market is more dynamic and open to foreign investment, and firms favour increasing familiarity and reputation in the host-market (Agarwal, 1994; Morschett et al., 2010). Therefore,

H5. A high level of host market dynamism is positively related to the adoption of an equity mode entry.

2.5. Entry mode strategy and firm performance

The literature on internationalization has argued that the choice of an appropriate market entry mode strategy is crucial and is argued to have an impact on firm's performance and international business success (Agarwal and Ramaswami, 1992; Blesa and Ripolles, 2008; Brouthers, 2002; Tse et al., 1997). Drawing on RBV, differences in firm performance may be explained by the heterogeneity of firms' resources (Blesa and Ripolles, 2008). In this context, firms by selecting a particular market entry mode attempt to transfer the specific resources from home-market to the host-market (Blesa and Ripolles, 2008). Since the various types of market entry mode aimed at transferring different levels of resources, each particular type of market entry mode has a distinctive influence on firm performance (Blesa and Ripolles, 2008; Lu and Beamish, 2001). In this sense, equity entry modes involve greater level of resources transfer into host market that is more difficult to reverse and less flexible in coping with resource investment hazards such as political instability in host markets (Dong et al., 2008). However, previous empirical works provide support for the view that equity entry modes are positively associated with firm performance. Further, they potentially provide a stronger competitive basis to operate in foreign markets than non-equity entry modes (Blesa and Ripolles, 2008; Dong et al., 2008; Lu and Beamish, 2001).

In the broader marketing area, firm performance has been seen as referring to the relative measurement of a firm's success in the marketplace. In this sense, market share can be deemed a measure of a firm's performance (Keller and Lehmann, 2003). As such, market share has been widely used as a reliable indicator of success. Similarly, sales volume is also a measure of performance as it reflects the level of direct earnings from customers through a firm's products. This measure is also widely used in the marketing literature (Weerawardena et al., 2006). Previous studies including those by Cavusgil and Zou (1994) and O'Cass and Julian (2003) have documented that strategy has a positive impact on performance (i.e., sales, sales growth, profits, total sales, market share and overall performance).

In our study, firm performance resides in the marketplace strength of a firm achieving the established objectives for its products as evidenced in total sales, profitability, market share, and the like in the region within the country. Specifically, total sales and profitability are considered key financial performance indicators, while market share is treated as a non-financial or operational performance indicator that is widely used in strategic marketing (e.g., Baker and Sinkula, 1999). Drawing on Blesa and Ripolles (2008), we expect that entry mode is related to firm performance, with equity entry mode entry more strongly related to firm performance that non-equity modes. Therefore,

H6. There is a positive relationship between equity mode entry and firm performance.

3. Methods

3.1. Data collection

A self administered survey was developed and mailed to 1200 senior executives of firms whose headquarters were in Hong Kong and which had operations into Mainland China. The list of firms was obtained from the membership lists of Hong Kong Industrial and Commercial Associations and the Trade Department of the Hong Kong Government. The sampling frame included firms from a wide cross-section of industries, including textile, transportation, light industries, metal-working, electronics, chemical and service industries.

Senior executives were key informants in this study, because they are knowledgeable about the business operation and characteristics of the organization, its strategy and performance (Snow and Hrebnick, 1980; Zahra and Covin, 1993). To verify the knowledge of the executives, we asked respondents how confident they are in terms of their knowledge of business activities to complete the survey (mean score is 7.7, standard deviation is 0.9).

With respect to the administration of the survey, an initial contact was made with the identified key informant of each firm requesting the participation in the study. A copy of the questionnaire, together with a personalized letter and a return envelope will be mailed to the identified key informant. Then, a reminder postcard was sent to the informant one week after the initial mailing. After three weeks, a replacement copy of the questionnaire, together with another personalized letter, was sent to the informants.

3.2. Measurement instrument

Firm characteristics were measured via five items adapted from Cavusgil and Zou (1994) that tapped the firm's relative position in China, amount of China experience, amount of resources for business development, the extent of planning for the China venture, the extent of management commitment, and the extent of resource commitment to the venture. These items were measured via a five

point scales from none (1) to substantial (5) and from minimal (1) to substantial (5).

Product characteristics were measured via six items adapted from Cavusgil and Zou (1994) that tapped the extent of product establishment, strength of product patent, training needs of sales force, degree of product uniqueness, degree of cultural specific, and the degree of service and maintenance requirement. These items were measured via a five point scales from none (1) to substantial (5).

Home market characteristics were measured by nine items from the industry environment scale originally developed by Weerawardena et al. (2006) and are related to technology change, technology development, customer preferences, new product search practice by customers, differences in product-related needs between new and existing customer, government regulation changes on product standards, pricing, advertising, and distribution of products/services. These items were measured by a five point scales from strongly disagree (1) to strongly agree (5).

Host market characteristics were measured by seven items adapted from Cavusgil and Zou (1994) tapping to extent of demand of potential of Chinese market, sophistication of marketing infrastructure; cultural similarity of markets, extents of legal and regulatory barriers, competitive intensity, product exposure in Chinese market, and brand familiarity in Chinese market. These items were measured via a five point scales from none (1) to substantial (5).

Entry mode strategy was conceptualized as a dichotomous decision between high control entry mode (equity mode, coded 1), and a low control entry mode (non-equity mode, coded 0). Our scale is based on previous research such as Anderson and Gatignon (1986), Anderson and Svensson (1994), Ekeledo and Sivakumar (2004), Erramilli and Rao (1993), Blomstermo et al. (2006).

Firm size was measured by the number of employees in Hong Kong and the number in Mainland China to establish a complete picture of firm size.

Firm performance was measured via five subjective indicators related to firm's satisfaction of its performance including, total sales, market share, gross profit, overall performance, and overall profitability. These items were measured by a five point scales from none (1) to substantial (5) and from minimal (1) to substantial (5).

Control variable. We measured firm type as the key control for market and firm heterogeneity. To measure firm type we used a categorical measure assessing whether firms were manufacturing or service focused in their operations.

4. Results

4.1. Preliminary analysis

Of the 1200 surveys mailed a total of 208 completed surveys were received, producing an overall response rate of 17.3%. Small and medium firms with the number of full-time employees less than 200 accounted for 70.7%, while large firms with the number of full-time employees more than 200 accounted for 29.3%. In relation to business operation location, 82.2% of respondent firms had operations located in Southern China, especially in Pearl River Delta of Guangdong Province and the coastal economic zones. The profile of the sample also shows that 76% have more than 6 years of operation in Mainland China. Firms that operated in consumer goods (B2C) sectors accounted for 57.2% of the sample, while only 42.8% of respondent firms operated in industrial (B2B) sectors. Regarding type of industry, respondent firms come from a wide variety of industry types. Specifically, home appliances firms accounted for 16.3% of the respondents, investment consulting 14.4%, toys 13.9%, and others that accounted for less than 10%.

Results also indicate that manufacturing firms accounted for a majority of the sample (61.1%), followed by services firms (27.4%) and trading firms (11.5%). In terms of product value, 18.8% of respondent firms had product unit price under $100, 26.4% between $100 and $500, 17.3% between $500 and $1000, 11.1% between $1000 and $5000, 10.6% between $5000 and $10,000, and 9.1% between $10,000 and $50,000. Only 2.9% and 3.8% of respondent firms had price unit between $50,000 and $100,000, and over $100,000, respectively. Of 208 respondents, Chief Executive Officers accounted for 23.5%, while senior executives in functional areas accounted for 76.5%. With respect to working experience of respondents, 2.4% of respondents had 6-to-10 years of working experience, 11.5% had 11-to-15 years, 44.7% had 16-to-20 years, and 41.3% had over 20 years. In relation market entry modes the analysis indicated that of the 208 firms responding approximately 53% entered China via a non-equity mode. Within the non-equity mode firms 49% chose direct export, 44% indirect export and the remaining licensing and contractual agreements. Of the firms entering via equity modes, 41% chose wholly owned subsidiary, 35% chose majority JV, 11% equity JV and 10% chose a JV with 50–50 equity arrangements.

4.2. Outer model results for focal constructs

The outer model parameters were estimated using partial least squares (PLS), a multivariate, variance-based technique used for estimating path models. An examination of the outer model indices (results) was undertaken with an examination of the average variance extracted (AVE), and bootstrap critical ratios (*t*-values). The component loadings and weights were also examined, along with composite reliabilities (CR) calculated for each construct of the model in PLS and are shown in Table 1.

The items measuring firm characteristics, product characteristics, home market characteristics, and host market characteristics had component loadings ranging from 0.37 to 0.93, from 0.67 to 0.91, from 0.73 to 0.87, and from 0.41 to 0.84, respectively. All items' loadings were above the threshold of 0.35 (Burdett et al., 2001) and significant at 0.05 (*t*-value >1.96). The composite reliabilities of firm characteristics, product characteristics, home market characteristics, and host market characteristics are 0.93, 0.94, 0.95, and 0.86, respectively, which were higher than the critical value of 0.70 (Nunnally, 1978).

The convergent validity of the outer-measurement models was computed by calculating the composite reliability and average variance explained (AVE). The assessment of convergent validity using composite reliability follows Nunnally's (1978) 0.7 threshold, while Fornell and Lacker's (1981) criteria for a satisfactory convergent validity is that the AVE should exceed 0.50. As reported in Table 2, results of the analysis for convergent validity indicate that all outer-measurement models meet the Nunnally (1978) criteria of higher than 0.70 and Fornell and Larcker (1981) criteria of higher than 0.50, except for host market characteristics (AVE = 0.48) which approached the benchmark value, exhibiting satisfactory convergent validity.

Discriminant validity was assessed by using the approach suggested by Gaski and Nevin (1985) indicating that discriminant validity among constructs is obtained when the correlation between two constructs is not higher than their respective reliability estimates. Table 2 demonstrates that no individual correlations (0.04–0.85) are less than their respective reliabilities (0.86–0.95), indicating satisfactory discriminant validity.

4.3. Inner model results addressing hypotheses

The inner model focuses on the hypothesized relationships between latent constructs specified as Hypotheses 1–5. The strength

Table 1
Partial least squares (PLS) generated outer model results.

Components and manifest variables	Loadings	t-Values	Skewness	Kurtosis
Firm characteristics (CR = .93 AVE = .68 α = .89)				
Firm's relative position in China	0.85	29.53	−0.22	−1.08
Amount of firm's China experience	0.84	36.01	−0.23	−1.05
Extent of planning for China venture	0.91	39.47	−0.71	−1.09
Extent of firm's management commitment	0.93	42.19	−0.63	−0.84
Extent of resource commitment	0.91	47.11	−0.31	−0.93
Product characteristics (CR = .94 AVE = .71 α = .91)				
Product establishment	0.82	26.33	0.13	−1.47
Strength of product patent	0.90	81.21	0.25	−1.40
Training needs of sales force	0.91	60.76	−0.26	−1.10
Degree of product uniqueness	0.88	51.71	−0.08	−1.26
Degree of cultural specificity	0.84	32.35	−0.32	−1.24
Degree of service/maintenance requirement	0.67	18.43	0.05	0.07
Home market characteristics (CR = .95 AVE = .69 α = .94)				
Technology is changing rapidly	0.73	19.67	−0.68	−0.88
Technology developments are dramatic	0.87	45.18	−0.10	−0.94
Customers' preferences change dramatically	0.87	44.42	−0.54	−0.37
Customers tend to look for new products	0.81	43.21	−0.93	0.03
New customers tend to have product-related needs different from existing customers	0.87	58.99	−0.15	−1.24
Government regulations on product standards change constantly	0.87	38.90	0.38	−0.70
Government restrictions on pricing fluctuate considerably	0.85	31.20	0.41	−0.58
Unpredictable advertising regulations from government	0.77	20.89	−0.26	−1.13
Government regulations on distribution change constantly	0.79	22.01	−0.30	−1.03
Host market characteristics (CR = .86 AVE = .48 α = .82)				
Foreign competitors in China	0.66	11.81	−0.65	0.01
Demand potential in China	0.66	12.57	−0.73	−0.32
Cultural similarity	0.49	9.29	−1.07	0.35
Sophistication of marketing infrastructure	0.83	40.30	−0.07	−1.82
Product/service exposure in China	0.84	29.48	−0.25	−1.34
Product/service familiarity in China	0.84	30.32	−0.24	−1.29
Extent of legal/regulatory barriers in China	0.41	5.63	−0.42	−0.10
Firm performance (CR = .91 AVE = .68 α = .79)				
Total sales	0.61	9.10	−0.45	−1.24
Market share growth	0.72	21.88	−0.58	1.10
Gross profit	0.95	78.59	−0.81	0.07
Overall performance	0.94	130.95	−0.84	1.34
Overall profitability	0.90	67.32	−0.32	0.68

Table 2
Discriminant validity for constructs.

Constructs	1	2	3	4	5
1. Firm characteristics	**0.93**				
2. Product characteristics	0.17	**0.94**			
3. Home market characteristics	0.31	0.61	**0.95**		
4. Host market characteristics	0.06	0.63	0.85	**0.86**	
5. Firm performance	0.15	0.74	0.68	0.57	**0.91**

Diagonal entries are composite reliabilities (> 0.70), others are correlation coefficients; all correlation coefficients are significant (*p* < 0.05).

and significance of individual paths for testing these hypotheses were examined via beta coefficients, *t*-values, individual path variance, along with R^2 for each endogenous constructs as reported in Table 3. In Hypotheses 1–5, high levels of firm characteristics, product characteristics, firm size, home market characteristics, and host market characteristics were predicted to associate with equity mode choices. The results support Hypotheses 1, 2, 4, and 5 with path weights of 0.44 (*t*-value = 1.77; path variance = 0.251), 0.32 (*t*-value = 2.93; path variance = 0.104), 0.55 (*t*-value = 2.90; path variance = 0.312), and 0.42 (*t*-value = 2.56; path variance = 0.126), respectively. These resource-based influences and environment influences explain 59% of variance of entry mode strategy. Interestingly, firm size does not associate with entry mode choices (*t*-value = 1.25). The results also support Hypothesis 6 (path weight = 0.53; *t*-value = 6.28; path variance = 0.282), which

predict a positive relationship between equity entry modes and firm performance.

The predictive relevance of the structural model was assessed via the average variance accounted for (AVA). The AVA is simply the mean R^2 of the structural model, representing the predictive power of the structural model without regard to the measurement model (Fornell and Bookstein, 1982). In Table 3, the AVA value is of acceptable magnitude for the inner-structural model at 0.44. Given the acceptable index for predictive relevance of the structural model is higher than the recommended 0.10, the predictive power of individual paths and of the structural model are satisfactory, supporting the theoretical soundness of the conceptual model.

The goodness-of-fit index (GoF) proposed by Amato et al. (2004) was used to assess the fit of both outer-measurement and inner-structural models to the data simultaneously. Differently from covariance-based SEM techniques (i.e., LISREL or AMOS), PLS does not optimise any global scalar function, leading to a lack of an index for global validation of the model as in the χ^2-based indexes. The GoF represents an operational solution to this problem and acts as a global fit index for validating the PLS model (see Tenenhaus et al., 2005). The GoF is a compromise between communality and redundancy in which the communality index measures the quality of the measurement model for each construct and the redundancy index measures the quality of the structural model for each endogenous construct taking into account to the measurement model (Tenenhaus et al., 2005). Thus, the GoF is the square root of the product of the average communality of all constructs and the average R^2 value of the endogenous constructs. Drawing

Table 3
Partial least squares results for hypotheses.

Predicted variables	Predictor variables	Path weights	Variance due to path	R^2	Critical ratio	
H1 – entry mode strategy	Firm characteristics	0.44	0.251[a]	0.59	1.77[*]	Supported
H2	Product characteristics	0.32	0.104[a]		2.93[**]	Supported
H3	Firm size	0.10	0.050[a]		1.25[**]	Not supported
H4	Home market characteristics	0.55	0.312[a]		2.90[**]	Supported
H5	Host market characteristics	0.42	0.126[a]		2.56[**]	Supported
H6 – firm performance	Entry mode strategy	0.53	0.282[a]	0.28	6.28[**]	Supported
AVA				0.44		

[*],[**] Indicates significant at .10 and .05.
[a] Indicates meeting .015 criterion.

upon the categorization of R^2 effect sizes by Cohen (1988) and using the cut-off value of 0.5 for commonality (Fornell and Larcker, 1981), GoF criteria for small, medium, and large effect sizes are 0.1, 0.25 and 0.36 respectively (Schepers et al., 2005). The calculated GoF for the model was 0.50, indicating good fit of each model to the data.

5. Discussion and implications

The findings of our study provide insights into the impact of resource-based influences and environment-based influences (in home and host markets) on the entry mode strategies of firms in a region-within-country context (Hong Kong–China). The findings show that possession of specific firm characteristics encompassing high levels of resources and skills appears to drive firms to enter Mainland China via an equity mode strategy. The findings are in line with prior work, which shows that a firm's strategic approach must match its configuration of characteristics of the firm such as management know-how and resources (Hamel and Prahalad, 1994), firm position in a foreign market (Eriksson et al., 1999), market experience and commitment to the venture (O'Cass and Julian, 2003).

The findings also indicate that firms' product characteristics have a significant impact on the choice of firms' entry mode into China. Firms whose products possess differentiated characteristics (as studied here) were more likely to choose an equity mode entry strategy from Hong Kong into Mainland China. This supports earlier findings from Cavusgil and Zou (1994) on the importance of product uniqueness and product attributes that influence firm strategic decisions. Importantly, our findings indicate that resource discrepancy based on size of firms does not matter in choice of entry mode from Hong Kong into China. This finding contradicts previous findings by Ekeledo and Sivakumar (2004) which showed that larger firms have a greater capacity to absorb costs, risks and greater capacity to invest in entry modes that require greater resources. Therefore, this highlights one specific difference when moving from the broader notion of international market entry from a marketing perspective to a region within country market entry perspective.

We theorized that home market characteristics and host market characteristics may help explain the structure of competition and identify market entry barriers which are critical factors that influence a firm's entry mode choice in a region-within-country context. The findings indicate that home market characteristics do indeed have a strong influence on the entry mode strategy of Hong Kong firms entering China. Specifically, when firms perceive their home market environment as highly competitive and changing, they are more likely to enter Mainland China (second economic region within country context) via an equity entry mode strategy. Extending the work of Goodnow and Hansz (1972), who demonstrated that certain environmental factors in a firm's host market play an important role in the choice of entry mode, we argued that the choice of entry modes is related to a firm's familiarity with the

characteristics of the host market (second economic region within country context) and degree of openness of that host market. The findings show that the host market characteristics have a strong influence on entry mode strategy for Hong Kong firms entering Mainland China. In particular, firms that see the host market (second economic region within country) as being important adopted an equity entry mode strategy. In line with earlier studies focusing on market size (see Agarwal and Ramaswami, 1992; Kwon and Konopa, 1993), population structure, per capita income, bilateral trade, legal system, political, economic, social and culture, technology issue, and government incentives (see Hofstede, 1998) the findings here also confirm that host market characteristics (dynamism) are an important catalyst for the decision of market entry mode for Hong Kong firms seeking to move into Mainland China. Our findings also indicate that firms that pursue an equity entry mode had stronger firm performance than those who pursued non-equity modes when entering economic regions beyond their own region (i.e., Hong Kong).

Our study provides several contributions to the international marketing literature. First, we have extended theory by bringing together RBV and institutional theory via a strategy–resource–environment duality perspective to better understand a special case within the international marketing discipline of what might be seen as closely aligned to international market entry mode strategy. In particular, our study indicates that region-within-country market entry mode choice depends on not only the environmental characteristics of the host and home regions, but also the characteristics of the firm and its products. Second, our study extends current literature by examining the antecedents and consequences of entry mode strategy from strategy–resource–environment duality perspective in a region-within-country context. By focusing on a specific region-within-country context we attempt to address shortcomings in eclectic models that exclude potential impacts of both home and host environmental factors that are difficult to control as firms in these studies may enter different countries.

From a managerial perspective, our study has several implications. First, our study underscores that the aspects of firm and environment characteristics complement each other to predict market entry mode strategies in the context of region-within-country (Hong Kong–China). For instance, a firm may pursue equity mode entry strategy when the perceived level of host market dynamism is high. Such entry mode strategy is likely to be successful, if the firm offers differentiated products in the host market. Second, our findings indicate that equity mode entry results in greater firm performance when the perceived level of dynamism in both host market (first economic region within country) and/or home market (second economic region within country) is high. This highlights that it is necessary to continuously monitor environmental changes (i.e., home market, host market) and adopt the view of market entry mode strategy as a dynamic and continuing aspect of the evolving strategy process, rather than an activity which is occasionally undertaken.

Our findings are important to the international marketing literature given the prominence of region-within-country (i.e., special economic zones and the like) as a global business phenomenon. In effect as many countries have established special economic zones (SEZs), our findings provide some insights into the performance of firms that now or will operate from within SEZs but seek to move into the larger economy of the nation. SEZs are independent geographical regions that have a relatively barrier-free environment that encourages internationalization in the host country (Papadopoulos and Malhotra, 2007). This highlight "one country, two systems" context and the interaction between SEZs and their mainland country (i.e., region-within-country) can be considered similar to international marketing between countries (i.e., UK and European countries). Given growing importance of SEZs as a global business phenomenon, this phenomenon is neglected issue in international marketing, especially from and RBV and institutional theory perspective. Our study takes an important step in advancing the integration of institutional theory and RBV in a region-within-country context.

6. Limitations and conclusions

While this study has several distinctive strengths, limitations resulting from trade-off decisions required in all empirical research are present. First, this study is limited, to a certain extent by using cross-sectional data, which leads to issues of casual inference. Future research using longitudinal data may help in evaluating the prescribed order of the investment in developing of the relationships among firm characteristics, external environment characteristics, market entry choice, and firm performance. Second, a possible concern with our study is the focus mainly on small- and medium-sized firms (SME) with larger numbers of firms in these two categories. These SMEs are the prime engine for economic growth in Hong Kong and SMEs account for 95% of the companies in Hong Kong and employ about two-thirds of the workforce. They operate usually without good financial backup, limited managerial resources, and informal centralized planning and control systems indicating international strategy and structure of SMEs are different from large MNEs. Therefore, the lack of large firm's involvement is the potential limitation that may cause a negative impact to these research findings. Future research may take this issue into account when conducting similar research in the region-within-country context.

In particular, future research should address an important research question; why it could be reasonably expected that firms from a region-within-country context would differ from others at examining foreign market entry mode decision-making. Specifically, there are four possible design strategies: (1) to compare Hong Kong firms having entered into Mainland China before and after its re-unification process as a single country; (2) to compare Hong Kong firms entering into Mainland China versus a different host/foreign countries such as Japan, Korea or even into other geographic areas; (3) to compare Hong Kong firms to other truly international businesses entering into Mainland China; (4) and to compare firms from different region-within-country economies going abroad. This, in addition, would link foreign entry mode selection to foreign market selection, which is taken for granted in this research, as two highly related decision-making processes in the internationalization process of any firm. Any of these strategies, if properly applied, would make significant contribution to this field of research.

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