



UNIVERSITY OF AGDER

## **Master's Thesis**

# **Analyzing Factors influencing Market Entry by Foreign Service Firms into developing Markets**

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*This Master's Thesis is carried out as a part of the education at the University of Agder and is therefore approved as a partial fulfillment of this education. However, this does not imply that the University answers for the methods that are used or the conclusions that are drawn.*

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**PICHPISEY LEM**

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## PREFACE

This paper is the result of a study examining factors that influence the market entry made by foreign service firms operating in the developing market of Cambodia. The country is located in Southeast Asian region which has a population of 16 million people. As an emerging nation that has the goal of attracting foreign direct investment (FDI), Cambodia has integrated itself in the ASEAN communities, and has seen an expansion of its GDP by USD 600 million and a sharing market of 550 million customers ([www.Business-in-Asia.com](http://www.Business-in-Asia.com)). According to the website Business In Asia, the country has attracted foreign direct investment through its lucrative business opportunities with preferential access to European and North American markets.

This paper has examined dozens of existing studies that are relevant to the market entry of both international manufacturing and service firms entering host countries. Factors such as, cultural distance, governance quality, political risks, economic forces, CEO characteristics, and a firm's geographical experience were proposed as factors influencing the market entry of foreign service firms that operate in Cambodia.

The aim of conducting this study was to identify the important factors affecting the market entry mode choices made by foreign service firms entering the Cambodian market. There were several similar studies related to developed countries such as, - the United States, European nations, China, and Japan. However, no data was available for the market entry made by foreign firms to enter Cambodia. That is why a study is needed to look at the strategic decision making made by foreign service firms moving into the Southeast Asian nation.

More specifically, the study was aimed at addressing the gap between media reports and academic studies about the reasons why foreign firms make decision to enter host countries, particularly the Cambodian market. This study reveals that the rationale used by companies to make entry is different from what is stated in many media reports. The results show that the decisions made by firms to enter the host country are based on the host government's ownership policy to foreign companies, economic growth, and other factors-such as- political risk, governance quality, a firm's geographic experience, the level of commitment by a firm to a certain geographical region, customer familiarity with new product/service, and customers' adaptation technology. These results contrast with media reports that say decisions by firms to enter the Cambodian market were negatively based on other factors- such as- low wages, and favorable potential exporting markets to some giant economies including the United States, and European countries.

In addition to the previously mentioned aims and objectives, there are some reasons that the author decided to write about the factors influencing international market entry of foreign firms to the developing market. First, the author is a native of Cambodia and has Cambodian cultures programmed into his mind and heart.

Another reason is that there is not much research in the area of international market entry made by foreign service firms entering Cambodia. Cambodian scholars, students and researchers need more information, especially research about the internationalization experienced by foreign service firms setting up shop in an emerging nation.

The author expects that readers would explore this research study by first reading the abstract in order to pick up some key points of the project before then heading into the introduction, literature review, methodology, analysis and discussion, and conclusion. Finally, an interview guide and reflection note will be presented in appendixes at the end of the paper.

PICHPISEY LEM

May 31, 2017

## **ABSTRACT**

The purpose of this research is to analyze factors impacting the market entry of international service companies operating in Cambodia. Eight international service firms operating in the service sector in Cambodia have been selected to be the target of the study. Finally a firm, Manulife Cambodia, one of the world's leading insurance firms has become a single case study for the research.

A qualitative method was used for this study and the CEO and General Manager of the firm was a valuable source of information. This research was specifically aimed at finding the answer to the given research questions: 1) Why do MNCs enter developing countries? And, 2) What influences the international service firm to enter the developing market of Cambodia?

The results indicate that nine propositions were existed from the study. Five of the six propositions that had been posed were confirmed, while four new factors were discovered through this study. One factor, CEO characteristics was discarded.

Customer familiarity with new product/service, host government's ownership policy, firm's commitment to certain geographical region, and customers' adaptation to technology are new factors found from this study, while cultural distance, governance quality, political risk, economic growth, and a firm's geographical experience were confirmed.

The results of this study could add to the current literature about the internationalization of foreign firms operating in the service industry of host countries. This study is open for further development since the research used one interviewee and one firm as the sample of the study. Both qualitative method and quantitative method could be applied.

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## **LIST OF ABBREVIATION**

CD- Cultural Distance

CEO- Chief Executive Officer

EJV- Equity Joint Venture

GM- General Manager

IJV- International Joint Venture

JV- Joint Venture

MNCs- Multinational Companies

WOS- Wholly owned subsidiary

TCE- Transaction Cost Economics

# CHAPTER 1

## INTRODUCTION

### 1.1. Introduction

Firms go international based on many reasons. This is sometimes based on the firms' internal stimuli, such as unique competence and excess capacity, as well as their external stimuli, such as opportunism and following others. 'Going international' can mean in other words, 'internationalization'.

However, 'going international', could also happen through entry mode selection, and according to Lin (2000), foreign market entry modes comprise of four common types: 1) Exporting, 2) licensing, 3) equity joint venture (EJV), and 4) wholly owned subsidiary (WOS), (Lin, 2000). In selection of market entry modes, firms mostly consider factors influencing the choices of market entry modes. Based on Albaum and Duerr's (2011) work, selections of entry modes could be based on experience and analysis (Albaum and Duerr, 2011). In this context, 'experience'- refers to either the firm's own experiences abroad, or its business partners' or other companies' experiences in foreign countries.

By going international, firms understand certain factors that influence the behavior in both local and international markets. According to Albaum and Duerr (2011, p. 175), the behavior of global markets is also affected by four major components: culture and societal structure; economic forces; competition; and political and legal forces. Political and legal forces themselves are also affected by the first component, culture (Albaum and Duerr, 2011).

### 1.2 Purpose of the research

The purpose of this master's thesis is to analyze factors impacting entry made by international service firms moving into a Cambodian developing market.

#### 1.2.1 Aim:

This study is aimed at identifying the important factors affecting the market entry made by international service firms entering the Cambodian market. This study can also contribute to the growing number of theories addressing the rapidly changing business environment.

#### 1.2.2 Objectives:

The first objective of this study is to address the gap between media reports and academic studies about the reasons why foreign firms make decision to enter host countries, particularly the Cambodian market.

The second objective is to provide new information/findings to researchers in order to study more about foreign service firms entering the Cambodian market in order to

develop theories about internationalization of service firms to such an emerging market in the Southeast Asian region.

### **1.3 Problem Statement**

The reason for writing about this topic is that there is bias assumption among foreign investors, through non-academic business reports and media reports, that Cambodia is a lucrative business place for opportunism, for example, low wage and favorable export market to western giant economies where they, investors, can avoid tax and unethically absorb benefit whereas academic research from other countries reveal other different factors that influence the decisions of market entry mode to a host country.

Also, there is no update academic research in the area of international market entry of foreign service firms operating in Cambodia. This is the current gap in academic literature on internationalization of foreign firms to Cambodia that is worth new finding on international market entry of foreign service firms whereas scholars, students and researchers need more research especially research about the field of internationalization.

### **1.4 Research Question**

This research is also aimed at finding the answers for the following two questions:

- 1) **Why do MNCs enter developing countries?** And,
- 2) **What influences international service firms to enter the developing market of Cambodia?**

### **Limitation**

There are a few limitations to this research. Time and financial expense were areas of concern. Due to these issues, geographical region for the research focuses on one country only-Cambodia.

### **Structure of the research**

This research consists of six chapters. Introduction is classified in chapter 1, Literature review comes to chapter 2, and it is followed by chapter 3 of methodology; Results and Analysis is contained in chapter 4, followed by Discussion in chapter 5, and finally chapter 6 is the last chapter of the thesis.

# CHAPTER 2

## LITERATURE REVIEW

### **2.1 Introduction**

In this chapter, dozens of studies related to market entry mode or internationalization of foreign firms to host countries will be reviewed. It is simplified in a way that studies are categorized in several parts, which reflect factors influencing market entry mode choices of foreign firms to a host country.

### **2.2 General Literature Review**

The decision on which entry mode should be chosen is a strategic one, while type of entry modes is normally categorized into four modes- Joint venture (JV), Wholly-owned subsidiary (WOS), Exporting, and Licensing (Lin, 2000). According to Lin (2000), firms may choose to integrate forward and perform all the production, marketing or R & D functions itself by establishing a subsidiary. At the other extreme, firms can choose to not perform any of these activities, but instead use independent distributors in a foreign market in order to export. By doing this, firms can alleviate investment in assets in the host country (Lin, 2000). Besides these two modes, a firm can also choose another option such as international joint venture-IJV (Lin, 2000).

#### **2.2.1 Definition**

The choice of market entry mode is defined as a long-term commitment by a firm in doing business in a target market through a given market contact approach (Samiee, 2012). Scholars have contributed their findings about the choice of market entry mode as a center on a series of measures for explaining and predicting market entry mode choice. Literature is extended and classified into three groups: -1) Ownership and control issues as descriptors of entry mode choice, 2) Country risk and development level to explain a firm's market entry mode choice, and 3) Cultural distance (CD) as a means of explaining international market entry mode choice (Samiee, 2012).

Albaum and Duerr (2011) mention in their book, *International Marketing*, that several factors such as culture, cultural distance, political risk and language, governance quality, economic forces, CEO characteristics, firms' geographic experience, internal drivers, and home and host country characteristics all have an impact on the decision of foreign market entry modes. The following are a review of literature looking at factors relevant to foreign market entry mode choices.

#### **2.2.2 Culture**

Culture is a dominant component that influences types, design, and color of products in overseas markets. Certain types of products may be affected by some cultures. For example, pork is not generally acceptable in Muslim societies. Culture would also affect advertising themes to sell products. For example, advertisements for diamonds worn by romantic and sophisticated couples from the United States or any of the

European countries are not popular in Japan (Albaum et al, 2011, p. 176). Culture also affects the process of negotiation between people from low context and high context areas. The US is an example of a low context culture. A US negotiating team may quickly establish a blunt and direct contact with their partners and firmly defend their position. In a high context culture such as Japan, the team will likely take time to know the potential partner in advance and seek to avoid arguments and confrontation.

According to Samiee (2012), culture is an integral part of many such decisions, where cultural distance (CD) implies proximity of individual values and beliefs vis-à-vis target investment projects. Samiee refers to the work of Davidson (1980) that prioritized investment decisions of firms based on culture, while targeting countries that are perceived to be similar and geographically closer. Additionally, Samiee refers to Ronen and Shenkar, (1985) who recommend that cultural distance (CD) has much greater influence on the internationalization at the initial and early stages as it can play a role of risk reduction indicator.

Samiee (2012) also examines market entry mode à la LV, which describes the role plays by the target country's formal and informal environment on the choice between wholly-owned subsidiaries (WOSs) and international joint ventures (IJVs). The study of 302 market entry decisions from 27 countries shows that the proportion of JVs are much more higher than that of WOSs, in which 70% of the decisions tend to prefer the choice of IJVs (Samiee, 2012).

Samiee (2012) concluded that risk reduction is the main source of evaluation of international market entry and its appropriate mode (Samiee, 2012). Companies use most of the time in studying and developing measures in assessing such risks (Samiee, 2012). According to Samiee (2012), firms' market entry choices are based upon different stages of their life cycles and confront dynamic and different internal and external conditions.

Samiee (2012) also concluded that à la LV's model offers a modest 15% improvement in entry mode classification over chance. LV's contribution demonstrates that Hofstede's CD measures based on the four as well as the six dimensions are predictors of JV versus FDI entry mode choice across five of the six models tested (Samiee, 2012).

### **2.2.3 Culture Distance and Governance Quality**

Albaum and Duerr (2011) emphasized that culture is an omnipresent environmental variable impacting international export marketing activities. The influences of the religious, educational, and social system of a society are the common concerns to international managers (Albaum and Duerr, 2011). Albaum and Duerr (2011) also stressed that these influences are often reflected through attitudes and human behaviors, as well as in the values and motivations of the people. They can affect business in practice, for example: status, price, gift in both giving and receiving, and personal characteristics (Albaum and Duerr, 2011).

Albaum and Duerr (2011) recommended that cultural distances should be taken into serious consideration when dealing with foreign markets.

In summary, culture influences the way people work. It impacts business when a foreign company moves to another country where managers need to understand the effects of culture on their business and market entry in order to avoid conflicts at work. This will prevent managers from becoming alienated from their new colleagues, and will avoid costly mistakes. According to Kogut and Singh (1998), culture influences the selection of foreign market entry mode: -thus, it influences the business and the way managers effectively communicate with their cross-cultural foreign partners.

Chang et al (2011) has worked on how cultural distance influences entry mode choice with the focus on the role of country's governance quality. Chang et al (2011) have studied up to 2,451 entries by Taiwanese MNEs from 13 countries. First, Chang et al (2011) has found that governance quality plays a contingent role when choosing entry mode:

- "MNEs prefer wholly-owned subsidiaries (WOSs) when the governance quality of the host country is poor" (Chang et al, 2011).

- "MNEs tend to prefer joint ventures (JVs) as their entry mode choice when the governance quality of the host country is satisfactory" (Chang et al, 2011).

According to Chang et al (2011), both formal and informal aspects of institutional environment should be considered when firms enter a foreign country. The study by Chang et al (2011) suggested that:

- "When cultural distance is high and governance quality is poor in a host country, foreign MNEs are intimidated and less inclined to collaborate with local partners, and thus prefer the choice of WOS, the entry mode with full control."
- "In contrary, if a country's governance quality is satisfactory, even if cultural distance is high, foreign MNEs prefer to work with local partners to enjoy various benefits of collaboration," (Chang et al, 2011).

Thirdly, Chang et al (2011) has also discussed-TCE perspective, another key moderator to bridge the governance quality and cultural distance. Along with TCE (Transaction Cost Economics) perspective, Chang et al (2011) connected this to the institution-based view (IBV) of international business strategy. Chang et al (2011) found that both informal institution (cultural distance) and formal institution (governance quality) have subsequently impacted the choice of market entry mode of foreign firms to a host country and the contracting cost of those firms (Chang et al, 2011).

- "If informal institution (cultural distance) and formal institution (governance quality) of the host country are both unfavorable to the foreign MNEs (i.e.



high cultural distance and poor governance quality), the contracting cost is too high, driving MNEs to choose the full control of arrangement of WOSs.”

- “The institution-based view, to some extent, reinforces the explanatory power of TCE on MNEs’ entry mode choice between JVs and WOSs (Chang et al, 2011).

#### **2.2.4 Political Risk and Language**

Duarte and Suárez (2010) discovered that firms prefer “JVs over WOSs when FDI’s environment is characterized by both high political risk (PR) and cultural distance (CD),” but this preference is valid only if language barriers from language diversity do not exist.

In contrast, Duarte and Suárez (2010) have also found that when language barriers exist, cooperating with a local partner aggravates the problems and costs derived from investing in a high uncertain environment. Duarte and Suárez (2012), in addition to previous research, found that political risk (PR) plays a vital role as a moderator of the impact of cultural distance on the choice between WOSs and JVs.

- “When political risk is high and cultural distance increases, foreign firms prefer to invest through JVs rather than WOSs. In such a context, foreign investors show a preference for entry modes sharing risks with a second partner, provide high flexibility and imply a low commitment of resource,” (Duarte and Suárez, 2012).

#### **2.2.5 Economic Forces**

Economic forces are one of the main factors influencing the market potential and market entry at any point of time. According to Albaum and Duerr (2011), infrastructure, energy and transportation facilities have greatly impacted a country’s business environment. Those components are called economic forces.

According to Terpstra and Sarathy (1994), when economic infrastructure functions well in a host country, that country is able to absorb foreign direct investment (FDI). In contrast, it will discourage FDI if the economic infrastructure in the host country is poor and accompanied with a high inflation rate and low technical capacity (Terpstra and Sarathy, 1994).

Similarly, Douglas and Craig (1995) found that a poor economic infrastructure may lead to a substantially different decision of market entry mode between manufacturing firms and service firms. Manufacturing firms can trade with markets that have poor economic infrastructure from a distance via exporting, but the service firms may seek to find alternatives for their market entry mode in such a situation. In an inadequate economic infrastructure, service firms may likely be in favor of joint ventures, exporting, management contracts, and franchising rather as their market entry mode choices instead of choosing wholly owned ventures (Douglas and Craig 1995).

### **2.2.6 CEO Characteristics**

When firms seek to go international, the choice of a suitable market entry mode is one of the strategic decisions they face. Some of the entry mode choices firms often consider, according to Laufs et al (2016), for example: Joint ventures (JVs) mode; - wholly owned subsidiaries (WOSs) mode, -and non-equity modes, such as exporting and contractual agreement, (Laufs et al, 2016).

A firm's entry mode choice also helps dictate the degree to which that firm is exposed to the host country (Laufs et al, 2016). For example, "the more resources the firm commits to the host country, the greater the risk of losing them if the engagement fails, at the same time, the firms barriers to exit may increase and would reduce its strategic flexibility in terms of other investments" (Laufs et al, 2016).

Laufs et al (2016) develops upon previous theories by examining the impact of the CEO's age, tenure and international experience on an SME's foreign market entry mode choice and how these variables are jointly associated with the firm's geographic experience and the host country's political risk.

The study examines data drawn from 99.7% of all German firms (Laufs et al, 2016). However, the researchers select only 1,730 German SMEs with international activities in 27 international markets. Laufs et al (2016) reached these SMEs' CEOs by email (Laufs et al, 2016).

Finally, Laufs et al (2016) examines how a combination of characteristics held by a CEO including age, tenure and international experience with the firm's geographic experience (on the organizational level) and the host country's political risk. Laufs et al (2016) has discovered that understanding the combination of the three variables/factors (CEO's age, tenure and international experience) along with the firm's geographic experience and the host country political risk is necessary in order to capture complex decision and to clarify how firms, particularly SMEs, make the choice of foreign market entry modes.

Gatignon and Anderson (1988) found that firms with long histories of international business activities prefer the market entry mode choice of a wholly-owned subsidiary or sole ownership. In contrast, "a firm with limited international experience that enters foreign markets is likely to use a low involvement mode of operation, such as exporting, to gain experience before getting involved in equity investment," (Gatignon and Anderson,1988).

Similarly, Erramilli (1991) examined the role a service firm's level of international experience played in its decisions regarding market entry mode choice. He found that firms with adequate experience abroad prefer the choice of a wholly-owned subsidiary. That choice is based largely on the fact that service firms entering foreign markets need to locate production facilities in that country's local markets (Erramilli, 1991).

### **2.2.6 Internal drivers of home characteristics and host country characteristics**

Erdomus et al (2009) has qualitatively studied four Turkish retail firms in textile and ready-to-wear industry by doing in-depth interviews with senior managers of the four companies. They found that:

- “Internal drivers of home and host country characteristics and matching have an impact on the internationalization process of retail firms from emerging markets” (Erdomus et al, 2009).

Erdomus et al (2009) characterizes internal drivers of home country characteristics as the push factors, while host country characteristics are the pull factors. According to Erdomus et al (2009), the push factors include characteristics of the firm and their decision makers, while the pull factors are the role of home government, economic conditions, and competitive conditions; Matching is defined as including micro level, macro level and global level (Erdomus et al, 2009). Retail internationalization process is characterized by Erdomus et al (2009) as including market selection, market entry methods, and retail management conditions (Erdomus et al, 2009).

O’Cass et al (2012) has studied factors that impacted how a large number of Hong Kong firms made strategic decisions moved into other economic zones within mainland China. Two-hundred-and-eight Hong Kong firms have been reviewed and, as a result, O’Cass et al (2012) found that firms’ characteristics, product characteristics, home characteristics, and host country characteristics (but not firm size) significantly influenced the choice of market equity entry mode strategies for those Hong Kong firms moving into mainland China.

More specifically about Cambodia, Wang and Yao (2008) found that most Chinese firms established production bases in Cambodia in order to more smoothly enter the markets of the European Union and North America. The second reason why some Chinese firms decided to move to Cambodia was because of the appreciation of Chinese currency and the increasing of labor cost, land, and raw materials in their country in 2007 and 2008.

In summary, Wang and Yao (2008) emphasized that the market entry mode choice of WOS or JV by Chinese firms to the host country, Cambodia, was influenced by factors within the host country, such as government policy and its favorable conditions for potential markets within the EU and the U.S. The other competing factor is the home country characteristics that restrict or create difficulties for firms. This is a push factor for them to move to the host country. Therefore, host country characteristics are the pull factors and home country characteristics are the push factors.

Similarly, Lin (2002) has, based on her study of 635 Japanese firms operating in China, found that:

- “The greater the influence of home country factors, the entering firm is more likely to choose WOS.”
- “The greater the market risk in emerging markets, the entering firm with the risk-absorption capability is more likely to choose WOS.”
- “The greater the stock of a firm’s knowledge of doing business in the market, the entering firm is more likely to choose WOS.”
- “The relationship between the host governments is positively related to the choice of joint venture in China” (Lin, 2000).

### **2.2.7 Other Relevant Factors influencing Market Entry Mode Choices**

Raff et al (2009) studied the choice of market entry mode with a focus on comparison of Greenfield investment, Merger and Acquisition (M&A), and Joint Venture to exporting, and discovered that local firms may choose the option of a merger or joint venture when the profitability of Greenfield investment relative to exporting. The following indicates Raff et al (2009)’s findings:

- “If Greenfield investment is more profitable than exporting, this reduces the price the multinational has to offer to acquire a local firm with the consequences that the multinational may prefer M&A to Greenfield investment.”
- “A local firm agrees to a joint venture if a Greenfield investment is a credible threat.”
- “If the multinational prefers exporting to Greenfield investment, a local firm may not accept a joint venture, and the multinational will choose M&A if the trade cost is sufficiently large.”

The above studies and other research are relevant to the choice of market entry mode, and are summarized in the below table in order to explain how such decisions are made.

**2.2.8 Table1. Summary of Theoretical Studies in Relation to Market Entry Mode**

Dependent variables Independent variables

| Paper         | Theory  | Entry/operation mode   | Variables   | Effect   | Context   | Type article                    | Remarks/comm ents |
|---------------|---|--|---|--|---|---------------------------------|-------------------|
| Samiee (2012) | <ul style="list-style-type: none"> <li>- The proportion of JVs is much higher than that of WOSs in which 70% of the decisions tend to prefer the choice of JVs where CD can potentially have different role.</li> <li>- LV's model offer a modest 15% improvement in entry mode classification over chance.</li> <li>- LV's contribution demonstrates that Hofstede's CD</li> </ul> | <ul style="list-style-type: none"> <li>- JVs</li> <li>- Wholly-owned subsidiaries</li> </ul> | <ul style="list-style-type: none"> <li>1- Cultural Distance</li> <li>2-à la LV's model</li> </ul> | <ul style="list-style-type: none"> <li>-Higher JVs</li> <li>-No influence</li> </ul> | 302 international firms from 27 countries in Europe | - Conceptual theory development |                   |

|                    |   |           |  |  |   |                            |  |
|--------------------|---|-----------|--|--|---|----------------------------|--|
|                    | measures based on the four as well as the six dimensions are predictors of JV vs FDI entry mode choice across five of the six models tested.  |           |  |  |   |                            |  |
| Chang et al (2010) | <p>Governance quality plays a contingent role when choosing entry mode:</p> <ul style="list-style-type: none"> <li>- MNEs prefer WOSs when the governance quality of the host country is poor.</li> <li>- MNEs tend to choose JVs as their entry mode when the</li> </ul> | JV<br>WOS | <p>Governance quality</p> <p>Cultural distance</p> | <p>Implications for policy makers.</p> <p>- CD is significant only if governance quality is poor</p> | 2,451 entries by Taiwanese MNEs from 13 countries | - Empirical theory testing |  |

|  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|
|  | <p>governance quality of the host country is satisfactory.</p> <p>- “The location-specific institutional characteristics, such as governance quality, also moderate the impact of cultural distance on an MNE’s entry mode preference.”</p> <p>- “When cultural distance is high and governance quality is poor in a host country, foreign MNEs are intimidated and less inclined to collaborate with local partners, and thus prefer the choice of WOS, the</p> |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|

|  |   |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|
|  | <p>entry mode with full control.”</p> <p>- “In contrast, if a country’s governance quality is satisfactory, and even if cultural distance is high, foreign MNEs prefer to work with local partners to enjoy various benefits of collaboration,”</p> <p>- Both informal institutions (cultural distance) and formal institutions (governance quality) have subsequent impact on the choice of market entry mode of foreign firms to a host country and the</p> |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|



|  |   |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|
|  | <p>contracting cost of those firms (Chang et al, 2011).</p> <p>- “If informal institutions (cultural distance) and formal institutions (governance quality) of the host country are both unfavorable to the foreign MNEs (i.e. high cultural distance and poor governance quality), the contracting cost is too high, driving MNEs to choose the full control of arrangement of WOSs.”</p> <p>- “The institution-based view, to some extent, reinforces the explanatory power</p> |  |  |  |  |  |  |
|--|---|--|--|--|--|--|--|

|                          |   |                          |  |             |  |                            |  |
|--------------------------|---|--------------------------|--|-------------|--|----------------------------|--|
|                          | of TCE on MNEs' entry mode choice between JVs and WOSs (Chang et al, 2011).   |                          |  |             |  |                            |  |
| Duarte and Suárez (2010) | <p>- "JVs over WOSs when FDI's environment is characterized by both high Political Risk (PR) and Cultural Distance (CD)," but this preference is valid only if language barriers from language diversity do not exist.</p> <p>- In contrast, when language barriers exist, cooperating with a local partner aggravates the problems and</p> | <p>- JV</p> <p>- WOS</p> | <p>- Political risk</p> <p>- Cultural distance</p> <p>- Language</p> | Significant | 334 FDIs by 63 different firms in 34 different countries | - Empirical theory testing |  |

|                           |  |                       |                                  |             |                                      |                            |  |
|---------------------------|--|-----------------------|----------------------------------|-------------|--------------------------------------|----------------------------|--|
|                           | <p>increases costs derived from investing in a highly uncertain environment.</p> <p>- “Effective communication is an essential factor in order to achieve real cooperation between partners”</p>                                       |                       |                                  |             |                                      |                            |  |
| Duarte and Suárez (2012), | <p>- “When political risk is high and cultural distance increases, foreign firms prefer to invest through JVs rather than WOSs. In such a context, foreign investors show a preference for entry modes sharing risks with a second</p> | <p>- JV<br/>- WOS</p> | <p>- Political risk<br/>- CD</p> | Significant | - 63 different firms in 27 countries | - Empirical theory testing |  |

|                      |  |                              |  |                 |                               |                                |  |
|----------------------|--|------------------------------|--|-----------------|-------------------------------|--------------------------------|--|
|                      | partner, providing high flexibility and implying a low commitment of resources.”   |                              |  |                 |                               |                                |  |
| Erdomus et al (2009) | - Internal drivers, home and host country characteristics and matching have an impact on the internationalization process of retail firms from emerging markets. | internationalization process | <ul style="list-style-type: none"> <li>- Home country characteristics: internal drivers-firms and decision makers characteristics</li> <li>- Host country characteristics: role of home government, economic conditions, and competitive conditions</li> <li>- Matching: micro, macro and global levels</li> </ul> | Not significant | - Four retail firms in Turkey | - Empirical theory development |  |

|                      |   |                                       |  |  |   |  |  |
|----------------------|---|---------------------------------------|--|--|---|--|--|
|                      |   |                                       |  |  |   |  |  |
| Laufs et al (2016)   | - Taking into the combination of the three factors (CEO's age, tenure and international experience) along with the firm's geographic experience and the host country's political risk is necessary in order to capture the complex decision and to clarify how firms, particularly SMEs, make the choice of foreign market entry modes. | Choice of foreign market entry modes. | CEO's age<br>CEO's tenure<br>CEO's international experience<br><br>Firm's geographic experience<br><br>Host country's political risk | Significant relationship<br><br><br><br><br><br><br><br><br><br>Significant relationship | 1,730 German SMEs with international activities in 27 international markets | - Empirical theory development<br><br>- Empirical theory testing |  |
| Pineda et al. (2011) | The market entry mode has a positive and significant influence on export  | Exporting                             | Market entry mode  |  | 122 Spanish hotels around the world   | - Empirical theory development                                   |  |

|                     |   |                                 |  |             |   |                            |  |
|---------------------|---|---------------------------------|--|-------------|---|----------------------------|--|
|                     | performance   |                                 |  |             |   |                            |  |
| O'Cass et al (2012) | Firms' characteristics,- product characteristics, home characteristics, and host country characteristics (but not firm size) significantly influence the choice of market equity entry mode strategies for firms from Hong Kong moving to the mainland China. | Market equity entry mode choice | - Firms characteristics,<br>- Product characteristics,<br>-Home characteristics,<br>- Host country characteristics |             | 208 Hong Kong firms                                   | - Empirical theory testing |  |
| Wang and Yao (2008) | The market entry mode choice of WOS by Chinese firms to the host  | WOS<br>JV                       | - Host country characteristics<br><br>- Home country   | Significant | 10 large scale Chinese Textile and Clothing Companies |                            |  |

|  |   |  |                        |                    |                              |  |  |
|--|---|--|------------------------|--------------------|------------------------------|--|--|
|  | <p>country, Cambodia was influenced by the host country's factors such as government policy and- favorable conditions for potential markets in EU and the US. The other competing factor is the home country characteristics that restrict or create difficulties for firms that push them to move to the host country. Thus, host country characteristics are the pull factors and home country characteristics are the push factors</p> |  | <p>characteristics</p> | <p>Significant</p> | <p>expanding to Cambodia</p> |  |  |
|--|---|--|------------------------|--------------------|------------------------------|--|--|





|                   |   |                                    |            |  |   |                               |  |
|-------------------|---|------------------------------------|------------|--|---|-------------------------------|--|
|                   | between the host governments is positively related to the choice of joint venture in China.   | JV                                 | the market |  |   |                               |  |
| Raff et al (2009) | -“If Greenfield investment is more profitable than exporting, this reduces the price of the multinational has to offer acquire a local firm with the consequences that the multinational may prefer M&A to Greenfield | Greenfield<br>Joint Venture<br>M&A | Exporting  |  | 2 firms<br>in a certain host<br>country | - Empirical<br>theory testing |  |

|                        |  |     |                                   |  |                                |                    |                               |
|------------------------|--|-----|-----------------------------------|--|--------------------------------|--------------------|-------------------------------|
|                        | <p>investment.”</p> <p>-“A local firm agrees to a joint venture if a Greenfield investment is a credible threat.”</p> <p>-“If the multinational prefers exporting to Greenfield investment, a local firm may not accept a joint venture, and the multinational will choose M&amp;A if the trade cost is sufficiently large.”</p> |     |                                   |  |                                |                    |                               |
| Morschett et al (2010) | - There is a strong positive relationship between power distance as the cultural trait of the  | WOS | - Power distance (Cultural trait) |  | 72 independent primary studies | Theory development | The author uses Meta-analysis |

|  |  |  |  |  |  |  |  |
|--|--|--|--|--|--|--|--|
|  | <p>firm's home country and the propensity to establish wholly owned subsidiaries.</p> <p>- There is a negative association between country risk, legal restrictions, market growth, and market size and the preference for wholly own subsidiaries.</p> <p>- Service companies exhibit a negative relationship between income level and wholly owned subsidiaries, while manufacturing companies show a positive relationship.</p> |  | <ul style="list-style-type: none"> <li>- Country risk</li> <li>- Legal restrictions</li> <li>- Market growth</li> <li>- Market size</li> </ul> |  |  |  |  |
|--|--|--|--|--|--|--|--|

|               |   |    |                        |  |                                    |                      |  |
|---------------|---|----|------------------------|--|------------------------------------|----------------------|--|
|               |   |    | - Income level         |  |                                    |                      |  |
| Haller (2008) | - Foreign entry may make it desirable and feasible for domestic incumbent to merge in case there is reaction by | JV | Reaction by local firm |  | 2 domestic firms in a host country | - Theory development |  |

|  |   |                              |                                  |  |  |  |  |
|--|---|------------------------------|----------------------------------|--|--|--|--|
|  | <p>local firm to merge or exit.</p> <p>- With anti-competitive reaction a multinational considering to entering the market may prefer to set up its own plant (Green field investment).</p> | <p>Greenfield investment</p> | <p>Anti-competitive reaction</p> |  |  |  |  |
|--|---|------------------------------|----------------------------------|--|--|--|--|

|                                  |   |                              |  |                     |                               |                             |  |
|----------------------------------|---|------------------------------|--|---------------------|-------------------------------|-----------------------------|--|
| <p>Seiders and Tigert (1997)</p> | <p>- The size of switcher segment is a function of the degree of differentiation, number of new competitors and variety of strategies brought to the market on critical store choice dimensions.</p> <p>- Segmentation of switchers by specific store shopped most often shows that these individuals responded to new strategies executed by attacking chains.</p> | <p>Critical store choice</p> | <p>-The size of switcher segment</p> <p>-Number of new competitors</p> <p>-Variety strategies</p> <p>Segmentation of switchers</p> | <p>Not relevant</p> | <p>Four markets in the US</p> | <p>- Theory development</p> |  |
|----------------------------------|---|------------------------------|--|---------------------|-------------------------------|-----------------------------|--|

|                           |  |                         |   |              |  |                                 |  |
|---------------------------|--|-------------------------|---|--------------|--|---------------------------------|--|
| O'Cass and VietNgo (2011) | <ul style="list-style-type: none"> <li>- Innovation capacity and marketing capacities mediate the effects of the firm's market orientation on its marketplace performance.</li> <li>- The interaction of innovation and marketing capacities significantly influences firm's marketplace more than they do individually.</li> <li>- Market orientation partially mediates the relationship between Entrepreneurial orientation and innovation and</li> </ul> | Marketplace performance | <ul style="list-style-type: none"> <li>-Marketing capacities</li> <li>-Innovation</li> <li>-Market orientation</li> <li>-Entrepreneurial orientation</li> </ul> | Not relevant | Two capacities and firms' marketplace in Australia and Vietnam | - Conceptual theory development |  |
|---------------------------|--|-------------------------|---|--------------|--|---------------------------------|--|

|                      |  |               |  |          |   |                                 |  |
|----------------------|--|---------------|--|----------|---|---------------------------------|--|
|                      | marketing capacities.  |               |  |          |   |                                 |  |
| Conconi et al (2015) | <p>- Most firms serve a market via exports before investing in a host country.</p> <p>-Firms are uncertain about their profitability in a foreign market and may experiment via exports before engaging in FDI.</p> <p>-In more uncertain destinations, firms delay FDI entry, experimenting longer with exports before establishing foreign affiliates.</p> | Export<br>FDI | <p>-Profitability in a foreign market</p> <p>-Uncertain destinations</p> | Relevant | All firms registered in Belgium except Manufacturing firms. | - Conceptual theory development |  |

**Table 1:** Summary of Theoretical Studies in Relation to Market Entry Mode



## 2.2.9 Market Entry Mode Theories

The following table outlines some of the most important conceptual theories within market entry mode choices, giving an overview of the field.

**Table 2:** The most important conceptual theories within market entry mode

| Author                   | Study/Theory  | Core Assumption   | Expectation  |
|--------------------------|---|---|--|
| Chang et al (2011)       | How cultural distance influences entry mode choices: The contingent role of host country's governance quality | “When cultural distance is high and governance quality is poor in a host country, foreign MNEs are intimidated and less inclined to collaborate with local partners, and thus prefer the choice of WOS, the entry mode with full control.”  | Cultural distance and governance quality of the host country have a positive relationship with the market entry made by international firms. |
| Duarte and Suárez (2012) | Cultural distance and choice between wholly owned subsidiaries and joint ventures                             | “When political risk (PR) is high and cultural distance increases, foreign firms prefer to invest through JVs rather than WOSs. In such a context, foreign investors show a preference for entry modes sharing risks with a second partner, provide high flexibility and imply a low commitment of resource.” | Political risk has a positive impact with the market entry made by international firms   |
| Albaum and Duerr (2011)  | International Marketing and Export Management   | Economic forces are one of the main factors influencing the market potential and market entry at any point of time  | Market entry likelihood increases the greater the stability of long term economic growth in the target market                                |
| Douglas and Craig (1995) | Global Marketing Strategy   | When service firms make market entry mode choices involving a country with inadequate economic infrastructure, those firms are likely to choose joint ventures,   |  |

|   |   |   |   |
|---|---|---|---|
|   |   | exporting, management contracts, and franchising, as opposed to choosing wholly owned ventures  |   |
| Laufs et al (2016)  | CEO characteristics and SME foreign market entry mode choice  | The combination of the three variables/factors (CEO's age, tenure and international experience) along with the firm's geographic experience and the host country political risk is necessary in order to capture complex decision and to clarify how firms, particularly SMEs, make the choice of foreign market entry modes. | CEO characteristics have a positive relationship with the market entry made by international firms              |
| Gatignon and Anderson (1988),<br><br>Erramilli, M. Krishna (1990) | The Multinational Corporation's Degree of Control Over Foreign Subsidiaries<br><br>Entry Mode Choices in Service Industries | A firm is likely to prefer wholly-owned subsidiary or sole ownership when it engages in international business over a long time period.<br><br>Firms with adequate experience abroad prefer choosing wholly-owned business since service firms need to locate their production in the local markets                           | A firm's geographical experience has a positive relationship with the market entry made by international firms. |

**Table 3:** The most important conceptual theories within market entry mode

## 2.3 Conceptual framework

This is the last section of Chapter 2, Literature Review. This section will address some of the expectations for this study. A few independent variables and one main dependent variable will be developed as a theoretical framework, and several propositions will be proposed.

- Dependent variable: Market entry
- Independent variables: Cultural distance, governance quality, economic growth, political stability, CEO characteristics, and a firm's geographic experience.

Propositions will be posed in expectation per variable in relation to the choice of market entry mode. Each of the propositions and the accompanying effects will be discussed upon how they relate to academic theory.

### 2.3.1 Proposition 1: Culture/Cultural distance

Culture has been viewed in most studies as the main factor that influences foreign market entry mode decisions in a broader context, but none of the studies mentioned specifically which market entry mode choice that leading foreign firms based on the factor of culture. Given this lack of theoretical support the expectation is quite clear but negative. Hence: Cultural distance will be examined instead of culture. According to Samiee (2012), culture is an integral part of many such decisions, where cultural distance (CD) implies proximity of individual values and beliefs vis-à-vis target investment projects. Samiee refers to the work of Davidson (1980) that prioritized investment decisions of firms based on cultural distance, while targeting countries that are perceived to be similar and geographically closer. Additionally, Samiee refers to Ronen and Shenkar, (1985) who recommend that cultural distance (CD) has much greater influence on the internationalization at the initial and early stages as it can play a role of risk reduction indicator. In addition, Samiee (2012) concluded that, "The proportion of JVs is much higher than that of WOSs in which 70% of the decisions tend to prefer the choice of JVs where CD can potentially have different role".

Based on this study, it can be assumed that:

*PI: Market entry likelihood increases, the greater the perceived cultural distance between home and target market.*

### 2.3.2 Proposition 2: Governance Quality

Chang et al (2011) has looked at how cultural distance influences entry mode choice, - with the focus on the role of the host country's governance quality. Chang et al (2011) has found that governance quality plays a contingent role when choosing entry mode:

- "When cultural distance is high and governance quality is poor in a host country, foreign MNEs are intimidated and less inclined to collaborate with

local partners, and thus prefer the choice of WOS, the entry mode with full control.”

- “In contrary, if a country’s governance quality is satisfactory, even if cultural distance is high, foreign MNEs prefer to work with local partners to enjoy various benefits of collaboration,” (Chang et al, 2011).

Based on this finding, it can be assumed that:

*P2: Market entry likelihood increases the more perceived governance quality in the target market.*

### **2.3.3 Proposition 3: Political Risk (PR)**

Duarte and Suárez (2012) found that political risk (PR) plays a vital role as a moderator of the impact of cultural distance on the choice between WOSs and JVs.

- “When political risk is high and cultural distance increases, foreign firms prefer to invest through JVs rather than WOSs. In such a context, foreign investors show a preference for entry modes sharing risks with a second partner, provide high flexibility and imply a low commitment of resource,” (Duarte and Suárez, 2012).

Meanwhile, Samiee (2012) concludes that risk reduction is the main source of evaluation of international market entry and its appropriate mode (Samiee, 2012). Companies use most of the time studying and developing measures in assessing such risks (Samiee, 2012).

Cambodia has achieved substantial progress in political stability, security, social order, and has seen socio-economic development that has underpinned a profound transformation in many aspects (Rectangular Strategy Phase III, 2013, p. 2). As a result, political risk (PR) in the host country has been minimized. Hence, based on these studies, it can be assumed that:

*P3: Market entry likelihood increases the more enjoyable long periods of political stability in target markets.*

### **2.3.4 Proposition 4: Economic Forces/growth**

According to Albaum and Duerr (2011), economic forces are one of the main factors influencing the market potential and market entry at any point of time. Albaum and Duerr (2011) refer economic forces to infrastructure, energy and transportation facilities. These factors have strongly affected business in the country. Those components are called economic forces.

Similarly, The work of Douglas and Craig (1995) shows that when service firms make market entry mode choices involving a country with inadequate economic infrastructure, those firms are likely to choose joint ventures, exporting, management contracts, and franchising, as opposed to choosing wholly owned ventures (Douglas and Craig 1995). Based on these studies, it is assumed that firms may prefer using

wholly-owned subsidiary mode rather than joint venture when the level of economic infrastructure is adequate or high. Therefore, it is proposed that:

*P4: Market entry likelihood increases the greater the stability of long term economic growth in the target market.*

### **2.3.5 Proposition 5&6: CEO Characteristics and Firm's Geographic Experience**

Laufs et al (2016) finds the result of the combination of CEO-'s characteristics - age, tenure and international experience when combined with the firm's geographic experience (on the organizational level) and the host country's political risk. Laufs et al (2016) has discovered that the combination of the three variables involved CEO characteristics along with the firm's geographic experience and the host country's political risk is necessary in order to make complex decisions and to clarify how firms, particularly SMEs, make the choice of foreign market entry modes.

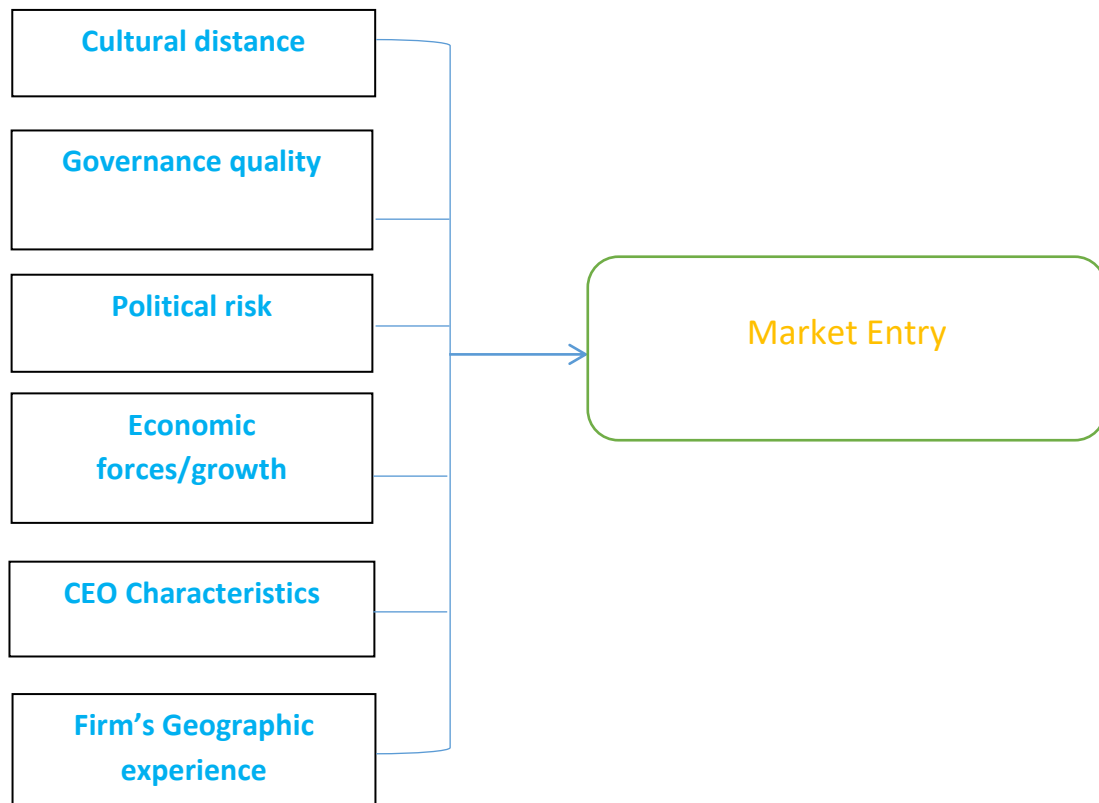
As for Gatignon and Anderson (1988), the authors found that a firm is likely to prefer wholly-owned subsidiary or sole ownership when it engages in international business over a long time period. In contrast, "a firm with limited international experience that enters foreign markets is likely to use a low involvement mode of operation, such as exporting, to gain experience before getting involved in equity investment," (Gatignon and Anderson,1988).

Similarly, Erramilli (1991) examined the influence of international experience on market entry mode choice of service firms, and he found that firms with adequate experience abroad prefer choosing wholly-owned business since service firms need to locate their production in the local markets (Erramilli, 1991). Based on these findings, it can be assumed that:

*P5: Market entry likelihood increases the greater the CEO characteristics toward target markets.*

*P6: Market entry likelihood increases the longer a firm has been doing business in a certain geographical area.*

**2.3.6 Figure 1: Conceptual framework**



**Figure 1:** Conceptual framework

# CHAPTER 3

## METHODOLOGY

### 3.1 Introduction

This chapter presents the overall research design of the thesis. The research design is a master plan of action that begins with the listing of research questions, the selection of appropriate variables for the study, the method of data collection and the plan to use the tools for analysis of the results. This chapter contains of five parts: 1) Context of study, 2) Case selection, 3) Data sources, 4) Analysis, and 5) Quality assurance.

### 3.2 Context of study

According to Miles and Huberman (1994), qualitative data is specifically based on wordings the respondent(s) express. It's very meaningful to capture what the respondents say, as it contains very important experiences, concepts, vision, tactics and strategies. "Qualitative data is the source of well-grounded and rich descriptive explanations, words they say, have the ability to even more compelling than a mere presentation of numbers" (Miles and Huberman, 1994).

However, the first notification of this study is that it will only be a qualitative approach, in which results can produce a small contribution to existing theories in the field of firms' internationalization.

In contrast, the results of this study are expected to produce a more compelling paper through the use of words instead of numbers in the area of quantitative research which produces evidence for the study.

#### 3.2.1 Cambodia and its Business Context

Cambodia is a country located in Southeast Asian region with a population of 16 million people. In order to attract more Foreign Direct Investment (FDI), the Cambodian Royal Government has expanded its sharing market of 550 million people and a GDP of 600 billion USD by integrating itself with the market of the 10 Southeast Asian Nations ([www.Business-in-Asia.com](http://www.Business-in-Asia.com)). In addition, Cambodia has also absorbed FDI through its lucrative business opportunities with preferential access to European and North American markets ([www.Business-in-Asia.com](http://www.Business-in-Asia.com)).

The Business in Asia's webpage states that many foreign firms entering Cambodia do so because of "Low wages, liberal government policy on business, access to larger markets, and a country that offers extensive opportunities for tourism. The large markets are a function of location and access to AFTA- Cambodia also has preferential access to the lucrative European and North American markets through its status as one of the least developed countries (LDC)" ([www.Business-in-Asia.com](http://www.Business-in-Asia.com)).

Based on the webpage of the Ministry of Commerce of the Kingdom of Cambodia ([www.moc.gov.kh](http://www.moc.gov.kh)), "Cambodia is a favorable country with newfound political

stability and proven economic growth sustainability. Cambodia has been transformed from a land in crisis to a land of opportunity and its boom days have just been beginning,” ([www.moc.gov.kh](http://www.moc.gov.kh)). According to the report of the ministry, the real economic growth of the country has averaged 6.7% over the last five year (2005-2010), and GDP per capita increased from US\$487 in 2005 to US\$830 in 2010.

Among foreign investors, China has become one of Cambodia’s top investing countries compared to other nations in the region such as South Korea, Malaysia, Japan, Vietnam and Thailand. According to the report by [www.Business-in-Asia.com](http://www.Business-in-Asia.com), China topped the list of foreign investing countries in Cambodia over the past 14 years, with total investment reaching 5.707 billion U.S. dollars, while South Korea ranked second with an investment of 2.749 billion U.S. dollars. This is followed by Malaysia with 2.199 billion U.S. dollars ([www.Business-in-Asia.com](http://www.Business-in-Asia.com)).

According to the report by the Ministry of Commerce, “Of the cumulative FDI approved in the period of 1995 to 2008, the largest share was from China with 23.97 percent, which in the early years was the source of extensive investment in the field of resource development, including rubber, and tourism. China is followed by Korea at 10.68 percent. The other major sources are Malaysia, Taiwan, Hong Kong, and Thailand, whose investment comes mainly from garment industry companies” (<http://www.cambodiainvestment.gov.kh/investors-information/fdi-trend.html>)

According to an online report on [www.Business-in-Asia.com](http://www.Business-in-Asia.com), Cambodia’s textile and clothing industries attract the most investment from foreign countries.

According to Global Business of The New York Time, some foreign firms that were based in China decided to move to Cambodia. One of the reasons was that those companies did not want to rely on Chinese manufacturing business. “Foreign companies are flocking to Cambodia for a simple reason. They want to limit their overwhelming reliance on factories in China”

(<http://www.nytimes.com/2013/04/09/business/global/wary-of-events-in-china-foreign-investors-head-to-cambodia.html>)

The following are examples of how foreign firms have been flocking to Cambodia- “Some of Japan’s biggest manufacturers are also rushing to set up operations in Phnom Penh to make wiring harnesses for cars and touch screens and vibration motors for cellphones. European companies are not far behind, making dance shoes and microfiber sleeves for sunglasses”

(<http://www.nytimes.com/2013/04/09/business/global/wary-of-events-in-china-foreign-investors-head-to-cambodia.html>)

In addition to this, Wang et al (2008), describes Cambodia as a state that enjoys “a favorable treatment of its textile and clothing exports to European Union market through the EBA Initiative introduced since 2001”. In addition, Cambodian textile



and clothing exports enjoy duty free and quota free market access to Australia, Canada and Japan (Wang et al, 2008). Moreover, according to Wang et al (2008), all of the Chinese firms, which have been interviewed, responded that they established production bases in Cambodia in order to enter the markets of European Union and North America more smoothly. Another reason was that some Chinese firms decided to move to Cambodia was because of the appreciation of Chinese currency and the increasing of labor cost, land, and raw materials in their country in 2007 and 2008.

Based on the above documents, it reveals that there is very little academic literature about the field of internationalization of foreign firms operating in Cambodia, and it reflects that there is a huge gap between the reality on the ground and academic research which mostly concentrates on cultural distance, governance quality, political risk, communication (language, and CEO characteristics, home and host countries' characteristics), etc. That is why the author proposes this project to study the internationalization selection of foreign firms to Cambodia.

### **3.2.2 Life insurance industry in Cambodia**

The life insurance sector in Cambodia started in 2012. Fifty-six years before that, a general insurance industry existed in the country but was destroyed by Khmer Rouge, the mass genocidal regime which ended the lives of an estimated 2 million people due to starvation, sickness, overwork, and execution from 1975-1979. The Cambodian general insurance industry resumed in the early 1990s after the country ended a decade of civil war. With the goal of social and economic development and prosperity, as well as to compensate victims against the losses by catastrophe, accidents and mishaps, the Cambodian government adopted new insurance laws in 2000, followed by relevant regulations in the subsequent years.

According to the Insurance Association of Cambodia (IAC, 2014), the Cambodian insurance industry is still in an early stage of development, but it has become increasingly active since some important key players entered the country ([www.iac.org.kh](http://www.iac.org.kh)).

IAC (2014) indicates that at least 11 insurance companies have been licensed by the Cambodian government to operate in the country; three of them are key players as life insurers. However, during the subsequent years, Cambodia has licensed two more micro life insurers ([www.clmvcapital.com](http://www.clmvcapital.com)). Based on the data of CLMV Capital Asia (2013), Cambodia currently has three main players in life Insurance sector: Cambodian Life Insurance, Manulife, and Prudential PLC. There are also two additional micro life insurance firms, Prevoir and Meada ([www.clmvcapital.com](http://www.clmvcapital.com)).

IAC (2014) also indicates that the life insurance sector has grown rapidly due to Cambodia's young population and the economic growth of 7.7% over the last several years.

### **3.2.3 Summary**

The context of this study can be further exemplified through three additional characteristics: country, size of firm, and industry. Cambodia is the only country to be studied. Size of firm for this study would target large international firms- MNEs for example- and the industry for the study will be in life insurance sector.

### **3.3 Case selection**

Case studies are preferable tool when researching “Why” and “How” questions while focusing on a contemporary phenomenon (Yin, 2009).

“Each case must be carefully selected so that it either a) predicts similar results or b) predicts contrasting results but for predictable reasons” (Yin, 2009: 47)

The access of this study was granted through the author’s personal network and the extended networks of these connections. It is certain that the study considers time efficient and impersonal relationship.

Two Western firms operating in the field of life insurance in Cambodia will be selected. Manulife, a well-known Canadian life insurance firm and Prudential Plc., a British life insurance firm will be the targets of the study. Brief information about the firm will be presented in chapter 4 of the research.

#### **3.3.1 Case study**

In this study, several case studies have been purposefully selected in order to fit the criteria, and the specific case that fits the criteria was chosen to be based on personal contacts.

Manulife Cambodia is a large international firm with 220 fulltime employees and 2,000 part-time agents. The company has almost 130 years of experience in the insurance sector. The company operates within the life insurance sector in Cambodia. The company is characterized as an MNE and it fits the purpose of examining the market entry.

The second company is Prudential Cambodia. Prudential Cambodia is a wholly-owned subsidiary of U.K. - based insurer Prudential Plc. Prudential Plc. has operated in the field of insurance since 1848.

The third selected company is AIA Cambodia. AIA Cambodia is a representative office of AIA Group, an international and independent publicly Asian life insurance group based in China (<http://www.aia.com.kh/kh/index.html>). AIA Group has operated in 18 markets across the Asia-Pacific region. AIA came to Cambodia in a representative mode for a few years ago and received license from the Royal Government of Cambodia to operate in the country in 2017 with the name of AIA Cambodia.

The fourth firm selected is Cambodia Life Insurance Plc. Cambodia Life Insurance Plc. was established in 2012 as a joint venture between the Royal Government of Cambodia and overseas insurance companies. The company transformed itself to a 100 percent sole ownership and owned by the local prominent firm, the Royal Group in 2015 (<http://www.royalgroup.com.kh>).

The fifth selected company is BIMA Cambodia. BIMA Cambodia is a wholly-owned subsidiary of Milvik (BIMA), the leading provider of mobile-delivered insurance in emerging markets. BIMA is based in Sweden. BIMA has operated in 13 different countries in different continents. BIMA came to Cambodia in 2014 as a low-cost life, accident, health and other insurance products to “the underserved segment in Cambodia” (<http://bima.com.kh>).

The sixth selected company is KPMG Cambodia. KPMG Cambodia is a representative of KPMG of which headquarters is based in the Netherlands. KPMG is a professional service firm that provides audit, tax and advisory services. KPMG came to Cambodia in 1994 (<https://home.kpmg.com/kh/en>).

The seventh selected firm is Deloitte Cambodia. Deloitte Cambodia is a brand of the UK Based Deloitte, one of the accounting and global largest service networks. According to Wikipedia, Deloitte is a company that provides audit, tax, consulting, enterprise risk and financial advisory service with more than 244,400 professionals globally (<https://en.wikipedia.org/wiki/Deloitte>).

The last company selected to be the target of the study is BRED BANK Cambodia. “BRED Bank (Cambodia) Plc., is a subsidiary of the cooperative BRED Banque Populaire, a member of the BPCE Group, the 2nd largest banking group in France, serving more than 31.2 million customers, employing more than 100,000 people worldwide, and counting 9 million cooperative shareholders” (<http://www.pelprek.com/company/2193/company-bred-bank-cambodia-plc.html>).

### **3.4 Data Sources**

For this study, two types of data sources will be collected. The first is a primary data source, while the other is a secondary data source. The collected data will be used for analyzing each of the cases.

Since this research study is a qualitative one, personal interviews will be conducted to gather the primary data. The reason and benefit of holding personal interviews is that it allows the interviewer to learn and observe from the respondents (interviewees) in order to better understand and receive the answers to the given research questions. An interview guide will be used while the interview is being conducted (Interview guide is in Appendix page).

Secondary data will be viewed from corporate website subpages. In addition, a recorded South East Asia TV talk show named Cambodia Global Talk about Life

Insurance in Cambodia will be used as secondary data source in order to enable a triangulation of all data collected. The collection of secondary data is necessary for the researcher so he can avoid using only a single data source.

### 3.4.1 Data Collection

A study by Yin (2009) presents three basic principles for data collection. These are: 1) Use multiple source of evidence, 2) the creation of a database with an organized archive of all documents, and 3) Maintenance of a chain of evidence (Yin, 2009). An interview with CEOs or General Managers of the firms lasted between 30 to 60 minutes. Audio of the interviews will be recorded, and then words will be transcribed and coded. The data will be archived and stored in a computer and external hard disk. The company’s website will be used to gather secondary data while the interviews are analyzed in order to triangulate the data. Factual information about the companies is extracted from the ‘About Us’ subpages on the websites. Certain answers made during the interviews are double checked against statements made on the corporate websites in order to confirm the response.

### 3.4.2 Triangulation

Triangulation is a tool developed to help researchers conduct qualitative research based on multiple data sources. According to Yin (2013), it should be based on more than one single source when using case studies for the research. “When you have really triangulated the data, the events or facts of the case study have been supported by more than a single source of evidence” (Yin, 2013). In this study, a few sources will be used to ensure the accuracy of data collected. Personal interviews with CEOs of the life insurance firms, a TV talk show about life insurance in Cambodia and information from each of the companies’ websites will be viewed and used.

## 3.5 Analysis of data

The flow model found by Miles and Huberman (1994) will be used for this step. The flow model consists of four stages: 1) Data collection, 2) Data reduction, 3) Data display and 4) Conclusion drawing/ verification-summary and the emphasis of final findings.

### 3.5.1 Table of codes

In order to make the table of codes for the study based on the six independent variables and one dependent variable, key words will be written down and used to explain each of the variables, for example:

**Table 3:** Table of codes

| Variable          | Key words  |
|-------------------|--|
| Culture           | National culture, corporate culture and personal culture |
| Cultural Distance | Low context, high context                                |

|                                |  |
|--------------------------------|--|
| CEO Characteristics            | Age, tenure, and international experience  |
| Political Risk                 | Political stability in host country (Low risk or high risk?)   |
| Governance quality             | Quality and characteristics of host country's governance   |
| Economic forces                | Infrastructure, energy, transportation facilities  |
| Home country's characteristics | Economy, Politics, Administration and Social type where very citizen perceives that he/she is a member of the nation or community in a home country. |
| Host country's characteristics | Economy, Politics, Administration and Social type where very citizen perceives that he/she is a member of the nation or community in a host country. |
| Market entry mode              | Joint venture, wholly-owned subsidiary, exporting agent, representative office   |
| Joint venture                  | Partnership; temporary agreement between two or more firms, particularly between international firm and local firm                                   |
| Wholly-owned subsidiary        | Sole ownership; 100% of common stock owned by the parent firm  |
| Exporting agent                | A representative that assists a business in transporting and/or selling their products in a foreign country  |
| Licensee                       | Franchisee   |

**Table3:** Table of codes

### 3.6 Quality Assurance

According to Bryman and Bell, (2007:411), four main criteria for evaluating qualitative research are very useful. The four criteria are: Creditability, transferability, dependability and confirm-ability.

Credibility of findings place through the establishment of research that is carried out in accordance with sound practices, as well as letting other researchers assess the work of the investigator in order to insure correct practices. Credibility of this study is achieved through following guidelines and good practices prescribed in methodology books. In order to ensure transferability of findings, a rich account of the phenomena to be studied is recommended.

Dependability is the term used to prove the assistance or advice from other professionals who make recommendations related to the research project. This means researchers should involve auditors in their project. Peers/supervisor can act as

auditors and make sure that proper procedures are being followed (Bryman and Bell, 2007). In this study, the appointed supervisor ensures the dependability as he acts as the auditor of the research study.

Confirm-ability is the last criteria to help the researcher check the accuracy of his/her interpretation of the data as objectivity as possible. It helps assure that the author has acted in good faith and is not biased by personal values (Bryman and Bell, 2007). In this research study, confirm-ability is achieved through reducing the risks for subjective interpretation from the researcher, sending the interviewees – “respondents” this research for his/her own firm to review.

### **3.7 Summary**

The Methodology is a crucial tool to implement the research design of the thesis. This chapter contains five parts: Context of study, case selection, data sources, analysis, and quality assurance. The case selection part presents the two chosen firms to be the target of the studies. The table of code in 3.5.1 is used to explain the meaning for each variable used in the research. This will be used along with interview guide when doing personal interviews. It is an assisting tool to help the interviewees understand the meaning of terms for each variable. Finally, quality assurance is applied in order to check and assure the credibility, transferability, dependability and confirm-ability of the researcher’s work.

## CHAPTER 4

### RESULTS & ANALYSIS

#### 4.1 Introduction

In this chapter, both the personal interview with Manulife Cambodia's CEO and the recorded Southeast Asia television Talk Show named Cambodia Global Dialogue (CGD)-hosted by H.E Dr. Sok Siphana, advisor to the Royal Government of Cambodia with Mr. Robert John Elliott, CEO and General Manager of Manulife Cambodia will be used for the study. The show lasts 45 minutes and the personal interview between the researcher and Robert lasts 40 minutes. The reason is that among the eight requested firms operating in the service sector, one firm responded positively and offered an interview to the researcher. It was Manulife Cambodia, one of the world leading life insurance companies that started its entrance to Cambodia. This case will be analyzed in details. The main findings from one interviewee will be presented in the below section.

#### 4.2 Case Study-Manulife Cambodia and its brief background

Manulife Cambodia, according to Elliott (2017), is a large international life insurance company with 220 fulltime employees and 2,000 part-time employees. The life insurance firm, Manulife, is a long term business with nearly 130 years of experience in the insurance sector. The company operates within the life insurance sector in Cambodia. According to Manulife's webpage and Robert (2017), the firm entered Cambodia as the foreign wholly-owned company. Manulife Cambodia was the latest market entry by Manulife Financial, one of the world's leading life insurance companies.

Manulife Financial is a leading Canada-based financial services group with principal operations in Asia, Canada and the United States.

“The Company's operations in Asia began in Hong Kong and Shanghai (1897), Japan (1901) and the Philippines (1907), before expanding into Thailand (1951) and Malaysia (1963), and then into Singapore (1980), Indonesia (1985), Taiwan (1992), Vietnam (1999) and, most recently, Cambodia (2012)” (Manulife's subpage).

According to Elliott (2017), Manulife's Asia Division provides protection and wealth management products, with operations across Asia. The company has around 64,000 contracted agents selling its products and has expanded its distribution capabilities to include more than 100 bank partnerships and more than 500 dealers, independent agents and brokers. Protection products include life insurance, group life and health, hospital coverage and wealth preservation. Wealth management products include mutual funds, pensions, annuities and investment-linked product.

### **4.3 Analysis of the Results**

In this section, two sources have been examined and analyzed. The first source was a television talk show about life insurance in Cambodia between Robert John Elliott and H.E Dr. Sok Siphana, advisor to the Royal Government of Cambodia and host of the television program called Cambodia Global Dialogue for SEA TV in 2016, and the second source was personal interview between the researcher and Robert John Elliott (2017) about factors influencing market entry of international life insurance firms in Cambodia. Therefore, it is noted that references attributed to Elliott (2016) refer to the comment by Elliott on the TV talk show while references attributed Elliott (2017) refer to the comment by Elliott in the interview with the researcher.

#### **4.3.1 Definition and reasons to enter the host country**

At the beginning of the interview, Robert John Elliot (2017) explained more about the reasons that the company decided to enter the Cambodian market. According to Elliott (2017), the first reason that the company decided to move to Cambodia was because the company received a green light from the Royal Government of Cambodia to operate as the first life insurance in the country since 2012.

“Manulife came to Cambodia because the Ministry of Economy and Finance granted us an operating license. Cambodia did not have life insurance at that time and so Manulife is the first foreign wholly owned company to come to Cambodia” Elliott (2017).

The second reason was because of the ownership policy provided by the host country.

“The reason is that because the Cambodian government allows foreign companies to own 100 percent ownership” Elliott (2017).

In response to the follow up question about other factors influencing Manulife’s market entry to move to Cambodia, Elliott (2017) mentioned a few more factors about the commitment of the firm to the geographical region, the host country’s sustainable economic growth, the increase in personal income and the anticipation of the firm to the growth of family protection by the emerging middle class of people in the host country.

Regarding the commitment by the firm to the region, Elliott (2017) mentioned, “The factors that Manulife came to Cambodia, first of all we are committed to Asia and to the ASEAN countries. Manulife is currently operating in 11 markets in Asia including in Cambodia. So it is very natural with Cambodia opening up, inviting foreign investment that this increases our footprint in Asia” (Elliott, 2017). In addition, Elliott (2017) views Cambodian economic growth as one of the attractive factors to absorb the firm to move in and this economic growth will bring the prosperity to people that create a great opportunity to the life insurance service provider.

“Cambodia has been enjoying economic growth which I think GDP of about 7 percent for the last few years, and as result of that you have an emerging middle class, and our



industry is about long term planning so people will consider life insurance while they have something to protect. People's income goes up; they get married, they have children, so they are making long term treatment" (Elliott, 2017).

Following the two introductory questions, the last question focused specifically on factors that influenced the firm to decide to move to the host country, Cambodia. The respondent has mentioned a few factors such as- the commitment of the firm to the Asian region, the host country's sustainable economic growth, the increase of personal income due to the economic growth, and the firm's anticipation of preparation for the future by the emerging middle class in Cambodia.

All of these were followed by several other factors that were detailed by the interviewee. Those other proposed factors were cultural distance, governance quality, Economic forces, CEO's characteristics and Firm's geographical experience.

### **4.3.2 Culture distance**

In response to the question about culture during personal interview with the researcher, Robert John Elliott (2017) expresses his belief that Cambodian people have a good culture of taking care of their family members, community and society, and that this kind of culture would bring benefit to the firm when entering to the host country's market. In regard to cultural distance, Robert John Elliott (2017) means that this country has become more adaptive to the equality between men and women through the fast growing of technology in the country, while he also observes the number of women is increasing at the work place. "In fact, it is quite impressive that women here work and they are quite independent. I don't see any barrier at all to doing business here". Additionally, Elliott (2017) sees culture/cultural distance in Cambodia in the same view to that of culture in other countries that would enable the life insurance business to be prosperous when entering it. "I don't see there is culture difference between people in Cambodia and in other countries" (Elliott, 2017).

The expectation from the literature review was that market entry likelihood increases the greater the perceived cultural distance between home and target market.

In comparing of the expected result and the result found from this study, the theoretical expectation is supported since the respondent sees cultural distance in the host country is no difference from other countries. This means it is no different from the home country, Canada's. Therefore, proposition 1, "Market entry likelihood increases, the greater the perceived cultural distance between home and target market" is confirmed.

**Final Proposition 1: Market entry likelihood increases, the greater the perceived cultural distance between home and target market**

### **4.3.3 Governance quality**

In the case study about Manulife, Robert John Elliott (2016) refers governance quality to the level of collaboration between regulators who work at the Ministry of Economy and Finance and the firm.

“The Ministry of Economy and Finance, you know, the government has a vision for Cambodia in a financial plan and insurance plays an important role in that and so it has been truly collaborative because we didn’t know much about Cambodia when we first arrived” (Elliott, 2016).

When being interviewed by the researcher, Robert John Elliott (2017) compares governance quality to the firm’s governance international standard, and the collaboration with the Ministry of Economy and Finance whose work is to oversee insurance sector in the country.

Based on both comments by Robert John Elliott, it seems governance quality of the host country is one of the factors that stimulate positive impact on the life insurance business in the country.

The expectation from literature review was that market entry likelihood increases the more perceived governance quality in the target market. Since the perceived governance quality in the host country is satisfactory, this finding is supported by the earlier finding. Therefore, proposition 2: “Market entry likelihood increases the more perceived governance quality in the target market” is confirmed.

**Final Proposition 2: Market entry likelihood increases the more perceived governance quality in the target market**

#### **4.3.4 Political stability**

In the case study of Manulife, Robert John Elliott (2017) views the target market, Cambodia as a country with low political risk. “...we don’t see that there is a potential big risk in Cambodia as it has quite a long period of stability” (Elliott, 2017).

The expectation in the literature review was that market entry likelihood increases the more enjoyable long periods of political stability in target markets.

Since the perceived political risk in the host country is low and the firm’s CEO sees the host market has enjoyed a long periods of political stability as a reason to enter it, then proposition 3 is confirmed. Therefore, final proposition 3 must be:

**Final Proposition 3: Market entry likelihood increases the more enjoyable long periods of political stability in target markets.**

#### **4.3.5 Economic forces/growth**

In the case study, the respondent emphasizes the constant economic growth of the host country as one of the factors that is relevant to the firm’s market entry mode choice to target market.

In a personal interview with the researcher, Elliott (2017) mentions that before making the decision, the board of governors of the company seriously examined the economic growth of the target market, Cambodia, and they saw it was going well with sustainable growth.

The expectation from literature review was market entry likelihood increases the greater the stability of long term economic growth in the target market.

Based on the result from this study that sustainable economic growth of around 7 percent per year during almost two decades in the host country is a pull factor to attract the firm to move into the target market, then proposition 4 is confirmed:

**Final proposition 4: Market entry likelihood increases the greater the stability of long term economic growth in the target market.**

#### **4.3.6 CEO Characteristics**

In the case study, the respondent emphasizes more specifically on CEO's international experience.

“For my point of view, my experience I suppose it suits the fact that I had worked in the UK; I have worked in Hong Kong, in Singapore, and I have a lot of hands on experience when it comes to distribution of our product and the selection of people and building successful teams and so on. So all of those things that Manulife is a very good choice to the country's encouragement about to come here, and I have been here for nearly five years, and we have built up a successful company” (Elliott, 2017).

However, according to Elliott (2017), he himself was not involved with the initiation to move to the country. “No, I did not initiate the move to Cambodia” (Elliott, 2017). The expectation from literature review was that market entry likelihood increases the greater the CEO characteristics toward target markets. Hence, CEO characteristics have no relationship with the market entry made by the firm. Therefore, the result from this study is not supported by the previous finding. Therefore, proposition 5 is discarded.

#### **4.3.7 Firm's geographical experience**

In the case study, Robert John Elliott (2017) refers the firm's geographical experience to its long-term base in Asia that the Canadian-based company began in 1897.

“Manulife in Asia and the fact that we have been here for over 120 years, the fact that we have been to other ASEAN countries, for example, in the Philippines in 1905. It was the first operation in the Philippines. Manulife has been in Asia through two world wars. And at that time, you know, Asia was very much involved with that. The company didn't leave. It stayed until the war ended and the business still continued, I think people have enjoyed life insurance for many years” (Elliott, 2017).

Moreover, Robert John Elliott (2017) also refers to customers' confidence in the firm due to its long term experience in the region.

“Manulife's regional headquarter is based in Hong Kong. So it would be the Hong Kong's team that proposed that we would open up in Cambodia, and because of our experience and confidence: [Number] one is our ability to execute such a plan, and

[number] 2 is the emerging economy of Cambodia and as a result a potential market, and to be an early mover in this market is an attractive proposition” (Elliott, 2017). Based on what Robert John Elliott (2017) mentions, the firm made its breakeven point in term of number of customers due its long term experience in the region. As a result of its four-year operation in the country, the firm attracted more than 20,000 of people to its life insurance products. All of these factors indicate the firm’s geographical experience has a positive relationship to its market entry. The expectation from the literature review was that market entry likelihood increases the longer a firm has been doing business in a certain geographical area.

By comparing the expected result and the finding from this study, it is obvious that the proposition is supported. Therefore, this proposition is confirmed, and it counted proposition number 5 existed from the study.

**FINAL PROPOSITION 5: Market entry likelihood increases the longer a firm has been doing business in a certain geographical area.**

#### **4.3.8 New factors influencing the market entry**

As a result of this study, two of the six propositions proposed, - cultural distance and governance quality, are discarded while three are confirmed: political risk, economic growth, and firm’s geographical experience. At the same time, only one of the propositions is CEO’s characteristics that need to make a change since the expectation is contradicted to the finding from this study. Nonetheless, there have been some new factors existed from this research study.

##### **4.3.8.1 Customer familiarity with new product/service**

It is also noted that there was a new concept/finding in relation to customer familiarity with product/service uncovered during the period of this study. On the television talk show, Robert John Elliott (2016), mentioned the curiosity among people who didn’t have experience with life insurance industry in which it is considered it to be a new factor since the respondent views the culture of being inexperienced to new products, service or industry is the level of curiosity to those new things respectively when referring to the entry to target market.

“I think we have a great opportunity in Cambodia, and because the industry is new in Cambodia, that is a level of curiosity. I think we have a great opportunity here in Cambodia, we do seminars in Cambodia and people are curious” (Elliott, 2016).

Based on this study, inexperienced Cambodian people with life insurance are curious to take part in this new industry, it is found that customer familiarity with imported product/service has a positive relationship with the new industry and its market entry as well as the need of entering firms to place into market education and training.

Therefore, the new finding from this study should be that market entry likelihood increases the more inexperienced the customers in the target market are related to new industry or in other words:

**FINAL PROPOSITION 6:** The lower the familiarity with new products/services perceived by customers in the target market the greater the resources entering firms need to place into market education and training.

#### **4.3.8.2 Host country's ownership policy to FDI**

In the case study, Robert John Elliott (2017) emphasizes one of the most important reasons why Manulife has chosen to enter target market. It was the full ownership policy by the host government to FDI.

“...the reason is that because the Cambodian government allows foreign companies to own 100 percent ownership.”

Therefore, there is another factor, host country's characteristics, which is positively related to the firm's market entry. The term host country's characteristics sound more general, and to be more specific, the factor is host country's ownership policy. Hence, a new finding exists from this study and it shall be counted as proposition 8 which states:

**FINAL PROPOSITION 7:** Market entry likelihood increases the more favorable foreign ownership laws in the target country.

#### **4.3.8.3 Firm's commitment to certain geographical region**

In the above section, one of the propositions which related firm's geographical experience has been confirmed. It was that the longer the experience of a firm has being doing business in a certain geographical area. In addition to this, Robert John Elliott refers to the relationship between the firm's commitment to the geographical region and its market entry mode to the host country when asking about the reason why the firm decided to enter Cambodia.

“So the factors that Manulife came to Cambodia, first of all we are committed to Asia and to the ASEAN countries. Manulife is in Singapore, Indonesia, the Philippines, Malaysia, Thailand, and Vietnam. So it is very natural with Cambodia opening up, inviting foreign investment that this increases our footprint in Asia” (Elliott, 2017). Hence, a new finding-firm's commitment to geographical region exists. Even though it is hard to find theoretical studies to support this, it has already happened with the firm. Therefore, another proposition coming from this study is that market entry likelihood increases the greater the commitment of a firm to a certain geographical area to the target market or in other words:

**FINAL PROPOSITION 8:** Market entry likelihood increases the longer the experience in operations in other neighboring markets of the internationalizing firm.

#### **4.3.8.4 Customers' adaptation to technology**

Yet, in the case study, in addition to the sustained economic growth, Robert John Elliott (2017) also talks about the fast growth of adaptation to technology among customers in the target market. This is found that fast growing adaptation to

technology is another favor of the firm to move into the country. Hence, the last new finding arises from this study is counted as proposition number 9:

**FINAL PROPOSITION 9: Market entry likelihood increases the more dynamic the technology adaption is by consumers in the target market.**

#### 4.4 Summary

Ten propositions have been existed from this study. all of the six proposed propositions were confirmed, and four factors have been discovered as new findings. In total, ten factors and ten propositions have appeared to be components influencing the market entry of service firms. Below is the final framework of the study.

**Figure 2: The Final Framework**

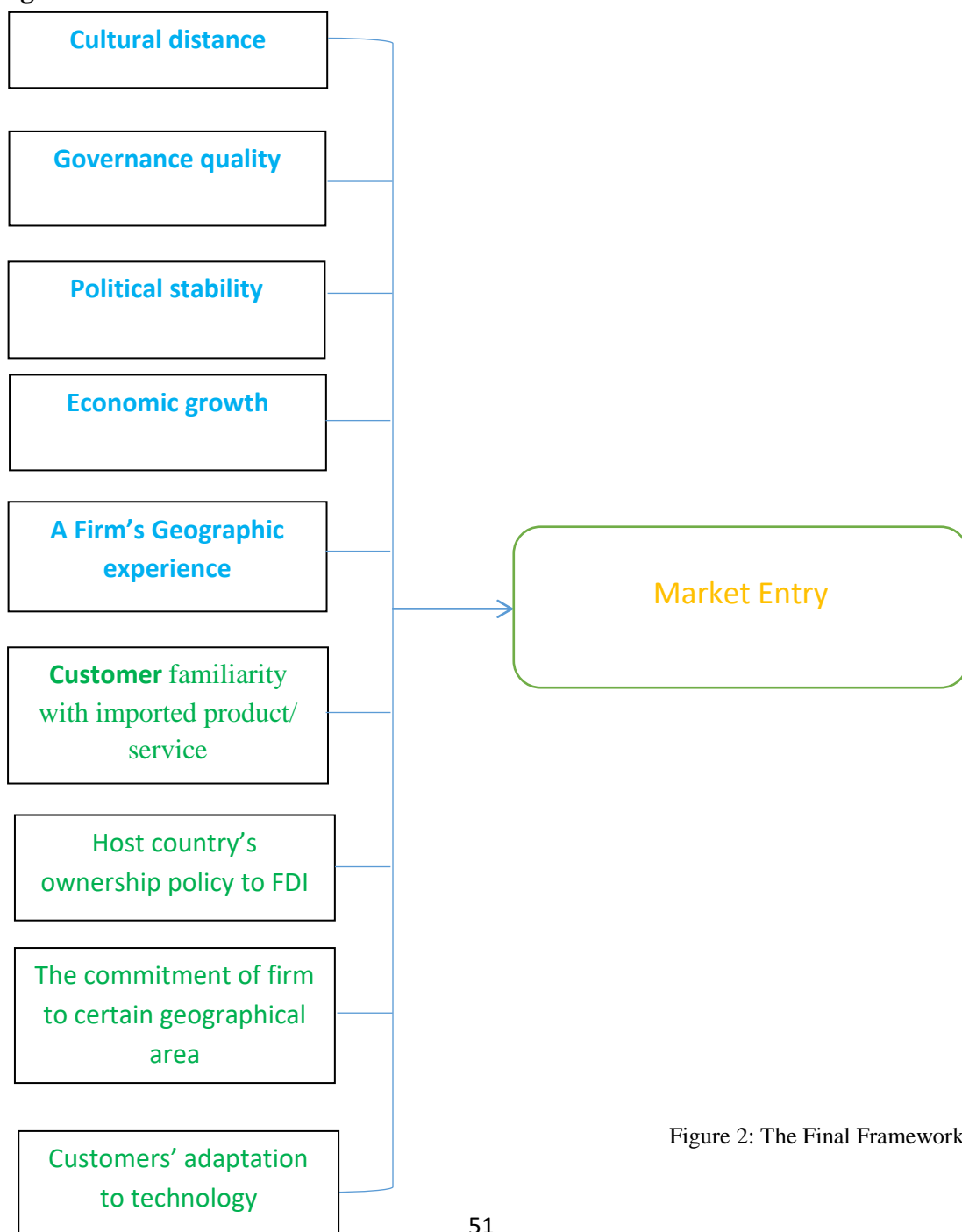


Figure 2: The Final Framework

The table below table compares the initial framework (figure 1 in from the literature review) and the final framework found in chapter 4. The reason for inserting the table is to systematically create a more visual aid to readers and the changes that have been discussed.

**Table 4: Comparison of initial and final frameworks**

|                                 | <b>Initial Framework</b>                           | <b>Final Framework</b>                        |
|---------------------------------|--|---|
| Level of Analysis               | Market entry mode choice of Life insurance company |   |
| Number of factors               | 6  | 10  |
| <b>List of original factors</b> | Cultural Distance                                  | Cultural Distance                             |
|                                 | Governance Quality                                 | Governance Quality                            |
|                                 | Political Stability                                | Political Stability                           |
|                                 | Economic force/growth                              | Economic force/growth                         |
|                                 | CEO characteristics                                |   |
|                                 | Firm's geographical experience                     | Firm's geographical experience                |
| <b>List of new factors</b>      |  | Customer familiarity with new product/service |
|                                 |  | Host country's ownership policy to FDI        |
|                                 |  | Firm's commitment to geographical region      |
|                                 |  | Customers' adaptation to technology           |

**Table 4:** Comparison of initial and final frameworks

## CHAPTER 5

### DISCUSSION

#### 5.1 Introduction

In this chapter, there will be a more detailed discussion based on the case study. Since there is one case study presented in the research study, the discussion will only focus on the comparison between the results found and previous literatures presented in chapter 2.

#### 5.2 Discussion of the Results

In this section, the results from this study will be discussed and compared to the previous findings. Key points from this study to discuss are nine independent variables confirmed and found, the dependent variable, - market entry, type of firm to be studied, and target market environment in comparison to earlier literatures.

##### 5.2.1 Discussion of the Confirmed Propositions

Five of the six propositions have been confirmed in this study, and these propositions will be discussed in this chapter through a comparison with existing literature that relates to the factors that influence the market entry made by international firms.

###### 5.2.1.1 Cultural Distance

**P1: Market entry likelihood increases the greater the perceived cultural distance between home and target market.** The first independent variable is cultural distance. The results from this study support the proposition that cultural distance has a positive relationship with the market entry made by international service firms. This positive relation indicates that international service firms are more likely prefer to enter a host country regardless of any type of market entry modes, for example, WOS or IJV. The results of this study are supported by Samiee (2012), who concluded that cultural distance is a much greater influence than internationalization at the initial stages, as it can play a role of a risk reduction indicator.

In addition, this finding is also supported by the previous literature of Chang et al (2011) who discovered the influence of cultural distance along with governance quality over the market entry mode choices. Chang et al (2011) confirmed that, “When cultural distance is high and governance quality is poor in a host country, foreign MNEs are intimidated and less inclined to collaborate with local partners, and thus prefer the choice of WOS, the entry mode with full control” (Chang et al, 2011).

However, the results of this study are different from the above literature, as this study focuses only on a separate variable- cultural distance- while the previous study by Chang et al (2011) focused on the combination of cultural distance and governance



quality. More specifically, this study is conducted in a developing country, while the research by Chang et al (2011) was conducted in developed countries.

#### **5.2.1.2 Governance Quality**

**P2: Market entry likelihood increases the more perceived governance quality in the target market.** The second variable is governance quality, and the results prove that this variable has a positive relationship with the market entry made by international service firms. The earlier literature of Chang et al (2011) also partially supports this finding. The first reason for the partial support is that the previous study focused on a combination of two variables - governance quality and cultural distance- while this finding focuses on a separate variable- governance quality. The second reason is that this study specifically looks into the market entry as its core dependent variable, while the previous research looked into market entry mode choices as its dependent variable. Another factor influencing the different conclusions of these studies might be business environment, since this study was conducted in a developing market.

#### **5.2.1.3 Political Risk**

**P3: Market entry likelihood increases the more enjoyable long periods of political stability in target markets.** The third independent variable for this study is political stability. This variable has a positive relationship with the market entry made by international service firms that enter a host country which has enjoyed a long period of stability. The result of this study was partially supported by the earlier literature of Duarte and Suárez (2012) and Samiee (2012). This is because the previous findings by Duarte and Suárez (2012) looked into a combination of two variables- political risk and cultural distance that influence market entry mode choices. This study specifically looked into a separate variable- political risk over the independent variable, - market entry. Also, this study was based in Cambodia, a developing market environment emerging after long periods of civil war, and enjoying a long period of political stability since the first universal election undertaken the United Nations in 1993.

#### **5.2.1.4 Economic Growth**

**P4: Market entry likelihood increases the greater the stability of long term economic growth in the target market.** The fourth independent variable of this study is economic growth, and this variable has a positive relationship with the market entry made by international service firms into a host country. Prior findings by Albaum and Duerr (2011), Terpstra and Sarathy (1994), and Douglas and Craig (1995) support this result. However, this particular study indicates a more specific result that of Albaum and Duerr (2011) who focused on economic forces such as infrastructure, energy, and transportation facilities that influence the market entry mode choices made by international firms. This study focuses on one separate and

specific factor, - economic growth, as the factor that influences the market entry made by international service firms.

Secondly, after comparing this study with the work of Terpstra and Sarathy (1994), the difference from the two studies might be the dependent variable. The dependent variable from the previous work by Terpstra and Sarathy (1994) was market entry mode choices, while this study focuses on market entry of international service firms.

Thirdly, the result of this study is based on decisions made by service firms, while the earlier study by Terpstra and Sarathy (1994) looked into both manufacturing firms and service firms.

The results of this study also might be different from the previous studies because this study was conducted in Cambodia, a developing country, where customers suffered the horrible effects of a planned economic system from 1975-1993.

#### **5.2.1.5 A Firm's Geographical Experience**

**P5: Market entry likelihood increases the longer a firm has been doing business in a certain geographical area.** The sixth variable of this study is a firm's geographical experience, and this variable has a positive relationship with the market entry made by international service firms. The result of this study was also partially supported by Laufs et al (2016), Gatignon and Anderson (1988), and Erramilli (1991). However, this study's finding is slightly different from the earlier findings by Gatignon and Anderson (1988) and Erramilli (1991), as this study looked into how geographical experience influences the market entry by foreign service firms, while the previous studies looked into how geographical experience influenced the market entry mode choices made by general international firms. The first difference is the dependent variables. This study focused on the market entry, while the previous ones focused on the market entry mode choices. Another difference between these two findings was the type of international firms that were studied. The result of this study has been based a service firm, while the previous ones resulted from the study of both manufacturing firms and service firms.

#### **5.2.2 Discussion of the Four New Findings**

Based on this study, four new factors have been determined to influence the market entry made by international service firms, and four propositions have appeared to be new findings which will be further discussed here.

##### **5.2.2.1 Customer Familiarity with New Product/Service**

**P6:** The lower the familiarity with new products/services the greater the resources perceived by customers in the target market, and the greater the resources entering firms need to place into market education and training.

Customer familiarity with new product/service has emerged from the case study and this might become the seventh independent variable that influences the market entry made by international service firms.

This finding is unique since customer familiarity with new product/service was not mentioned in any of the previous literatures which relate to market entry made by international service firms.

Also, this finding also emerged from a developing market environment context that none of the earlier studies considered.

However, this variable--customer familiarity with new product/service--would require further investigation and could be worthy of future research.

### **5.2.2.2 Host Country's Ownership Policy**

**P7:** Market entry likelihood increases the more favorable foreign ownership laws in the target country.

Foreign ownership in the target market or host country's ownership policy is the eighth variable to appear from this study. This variable has a positive relationship with the market entry made by international firms, and the result reveals a new and interesting finding that none of the existing academic papers had previously uncovered. And this result exists in Cambodia, a developing market environment context that none of the current literatures looked into. In other words, this finding is more specific than that of current literatures. Erdomus et al (2009) looked into internal drivers of home characteristics and host country characteristics as the factors influencing market entry made by German firms. By comparing the two works, the earlier study by Erdomus et al (2009) was broader than that of this one. Similarly, Wang and Yao (2008) discovered a broader factor that influenced Chinese firms to enter the Cambodian market. According to Wang and Yao (2008), the factors that influenced the market entry made by Chinese firms entering the host country, Cambodia, were the host country's factors such as government policy and favorable conditions for potential markets in E.U. and the U.S. The differences from this study's results and those of Wang and Yao (2008) were Wang and Yao (2008) looked into manufacturing firms, while this study looked into service firms. Therefore, this finding creates another potential opportunity for further research.

### **5.2.2.3 Firm's Commitment to Certain Geographical Region**

**P8:** The likelihood of market entry increases the longer the experience in operations in other neighboring markets of the internationalizing firm.

A firm's commitment to certain geographical region is the new independent variable found in this study. This is the eighth variable from the study, and it has a positive relationship with the market entry made by international service firm. This is another new and interesting factor that none of the current academic literatures uncovered. In addition, this finding was discovered in Cambodia, a developing market environment.

Therefore, this new result makes another potential gap to be filled by the future researchers.

#### **5.2.2.4 Customers' Adaptation to Technology**

**P9: Market entry likelihood increases the more dynamic the technology adaption is by consumers in the target market.**

The last new independent variable for this study is customers' adaptation to technology, and this variable has positive relationship with the market entry made by international service firms. This is the last new finding from this study that none of the current academic papers discovered. This finding was uncovered in Cambodia, a developing market environment that makes it new and unique. This variable represents another new opportunity for future researchers to expand upon.

### **5.3 Summary**

Nine factors have been found as influencing the market entry made by international service firms, including four new factors uncovered during this study. Customer familiarity with new product/service, host government's ownership policy, firm's commitment to certain geographical region, and customers' adaptation to technology are new factors found from this study, while cultural distance, governance quality, political risk, economic growth, and a firm's geographical experience were confirmed. The five confirmed factors were partially supported by current literature, and all the nine factors were discovered in a developing market which makes the results of this study different from those of current literature.

The following is a table that includes factors that have been confirmed and found.

**Table 5: Summary of the Results**

| <b>Independent Variable</b>                      | <b>Dependent variable</b> | <b>Direct Mediation by prior literatures</b> |
|--|---------------------------|--|
| Cultural distance                                | <b>Market Entry</b>       | Partially support                            |
| Governance quality                               |                           | Partially support                            |
| Political risk                                   |                           | Partially support                            |
| Economic growth                                  |                           | Partially support                            |
| A Firm's geographical experience                 |                           | Partially support                            |
| Customer familiarity with new product/service    |                           | New  |
| Host government's ownership policy               |                           | New  |
| Firm's commitment to certain geographical region |                           | New  |
| Customers' adaptation to technology              |                           | New  |

**Table 5:** Summary of the Results

## CHAPTER 6

### CONCLUSION

#### 6.1 Introduction

This chapter focuses on the results and conclusions of the research study, the implications of the results and limitation of the study.

A summary of findings will be presented, along with explanations of how the study can contribute to existing theories about market entry mode choices.

#### 6.2 Summary of Findings

Of the six propositions posed in the initial framework, this study has confirmed five, while one has been discarded. Four new findings have made related to factors influencing the market entry made by service firms operating in host countries. Totally nine propositions have existed from this study. The following is a summary of findings from this study.

**Table 6-List of Propositions**

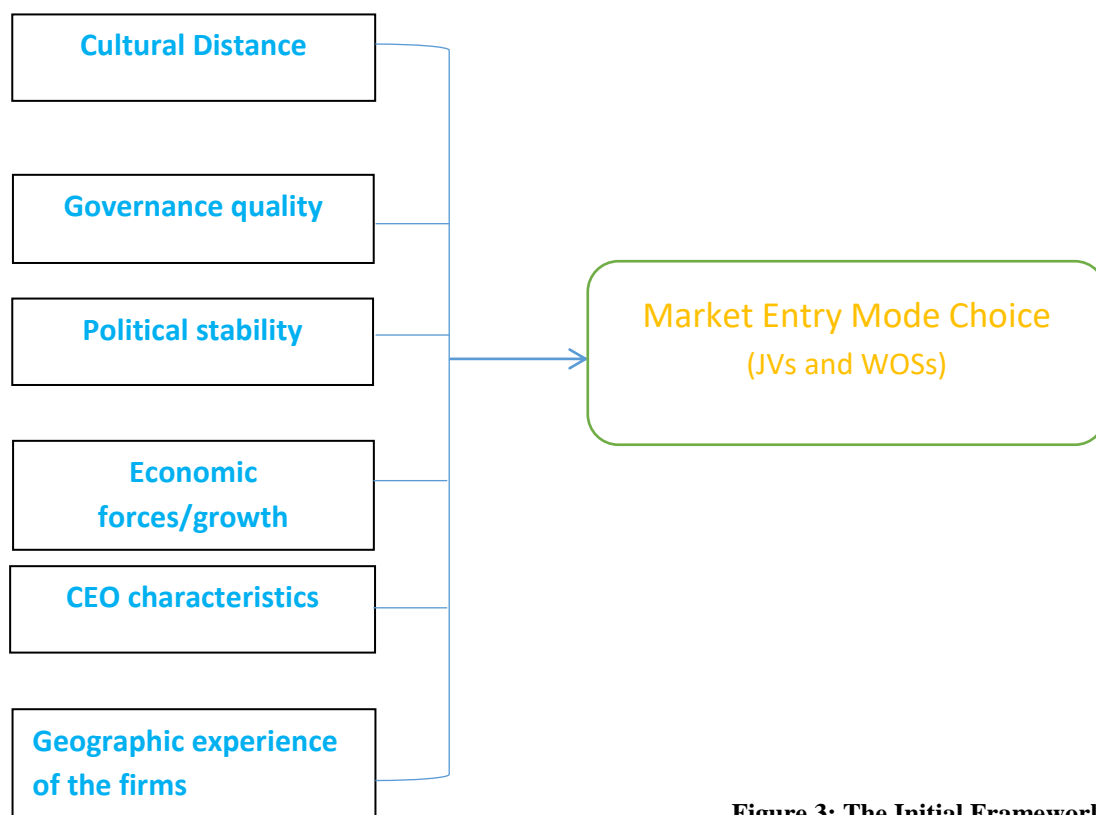
| Number of P. | Propositions  |
|--------------|---|
| P1           | Market entry likelihood increases, the greater the perceived cultural distance between home and target market.  |
| P2           | Market entry likelihood increases the more perceived governance quality in the target market.   |
| P3           | Market entry likelihood increases the more enjoyable long periods of political stability in target markets.   |
| P4           | Market entry likelihood increases the greater the stability of long term economic growth in the target market.  |
| P5           | Market entry likelihood increases the longer a firm has been doing business in a certain geographical area.   |
| P6           | The lower the familiarity with new products/services the greater the resources perceived by customers in the target market the greater the resources entering firms need to place into market education and training. |
| P7           | Market entry likelihood increases the more favorable foreign  |

|           |  |
|-----------|--|
|           | ownership laws in the target country.  |
| <b>P8</b> | Market entry likelihood increases the longer the experience in operations in other neighboring markets of the internationalizing firm. |
| <b>P9</b> | Market entry likelihood increases the more dynamic the technology adaption is by consumers in the target market.                       |

**Table 6:** List of propositions

In order to make these points easier for readers to understand, the initial and final frameworks are illustrated as followed:

**The Initial Framework:**

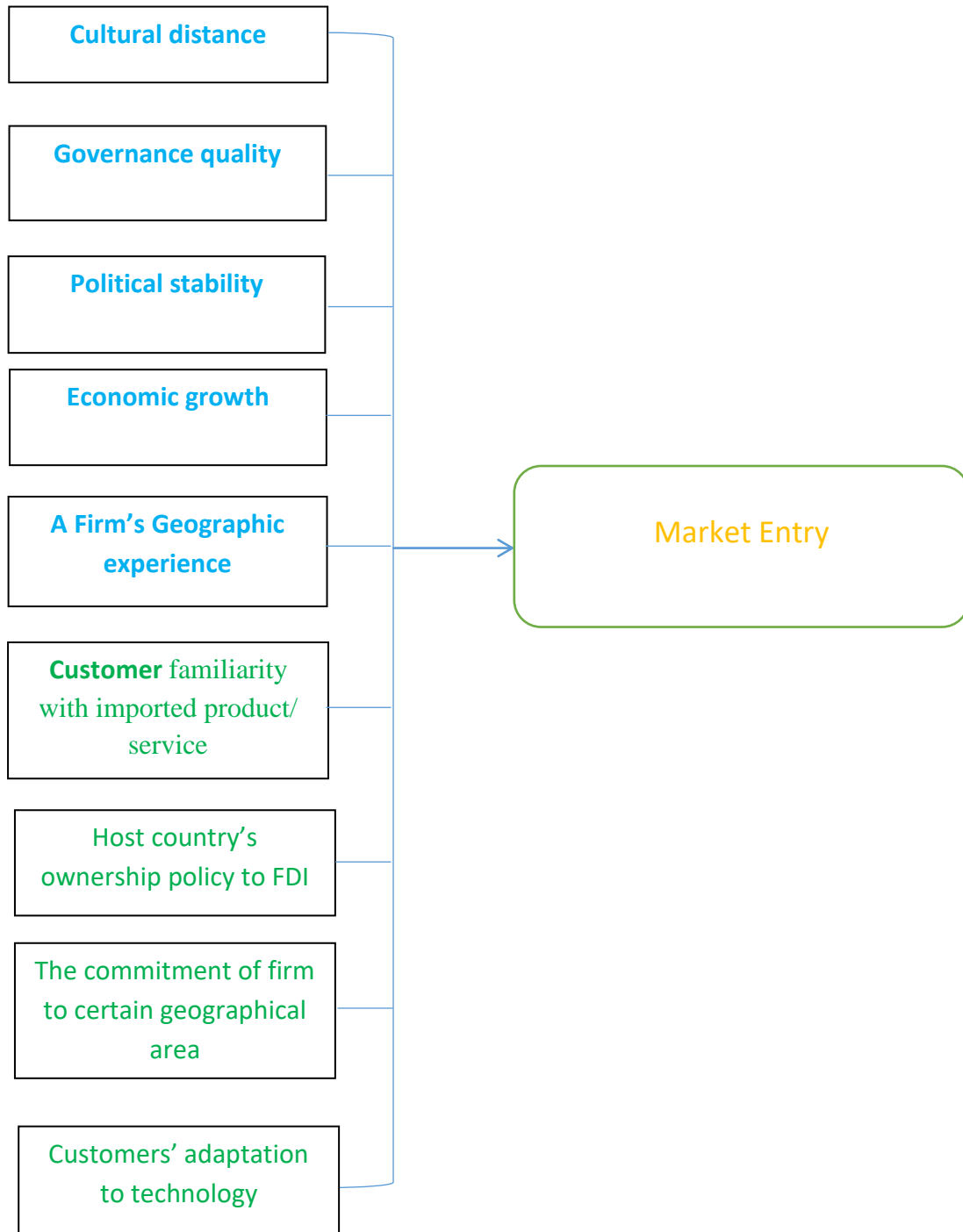


**Figure 3: The Initial Framework**

In the initial framework, six factors are proposed as influencing the market entry mode choices made by foreign service firms entering a host country, and as a result two of the proposed factors were discarded. The discarded factors were cultural distance and governance quality. The factors impacting market entry mode decisions are political risk, economic growth, CEO characteristics, and a firm’s geographic experience. Moreover, the study has found new factors that influence the market entry mode choices of wholly-owned subsidiary (WOS) by foreign service firms. Those factors include the extent to which the culture of the host country is inexperienced with new industry, governance quality, the host country’s ownership policy, the

commitment of firm to certain geographical area, and customers' adaptation to technology. The following figure demonstrates the final framework emanating from the study.

**Figure 4: The Final Framework:**



**Figure 4:** The final framework of the study

The table below demonstrates a comparison between the initial framework and the final framework found in chapter 4. The table is designed to create a visual aid for readers that depict the changes that have been discussed.



**Table 7: Comparison of initial and final frameworks**

|                                 | <b>Initial Framework</b>                           | <b>Final Framework</b>                        |
|---------------------------------|--|---|
| Level of Analysis               | Market entry mode choice of Life insurance company |   |
| Number of factors               | 6  | 10  |
| <b>List of original factors</b> | Cultural Distance                                  | Cultural Distance                             |
|                                 | Governance Quality                                 | Governance Quality                            |
|                                 | Political Stability                                | Political Stability                           |
|                                 | Economic force/growth                              | Economic force/growth                         |
|                                 | CEO characteristics                                |   |
|                                 | Firm's geographical experience                     | Firm's geographical experience                |
| <b>List of new factors</b>      |  | Customer familiarity with new product/service |
|                                 |  | Host country's ownership policy to FDI        |
|                                 |  | Firm's commitment to geographical region      |
|                                 |  | Customers' adaptation to technology           |

**Table 7:** Comparison of initial and final frameworks

### 6.3 Conclusion

The aim of conducting this study was to identify the important factors affecting the market entry made by international service firms to enter the Cambodian developing market. There were lots of similar studies based in developed countries such as, - the United States, certain European countries, China, and Japan, but no data was available for market entry in Cambodia. This is why it is needed to conduct a study looking at the strategic decision making process undertaken by international service firms expanding into the Southeast Asian nation.

More specifically, the study was aimed at addressing the gap between media reports and academic studies about the reasons why foreign firms make decisions to enter a

host country, particularly the Cambodian market. As a result, this study indicates that the reasons international service firms made the choice to move to this emerging market are different from what is depicted in media reports. The results show that the choice of firms to enter the host country are based on the host government's ownership policy to foreign companies, economic growth, as well as other factors including cultural distance, political stability, governance quality, a firm's geographical experience, customer familiarity with new product/service, the level of commitment of a firm to a certain geographical region and customers' ability to adapt to new technology. On the other hand, media reports concluded that firms made their choice to enter the Cambodian market based on other factors, such as, - low wages, and the potential for exporting products to the giant economies of the United States, and Europe.

It is noted that his study looked into the literature in developed country and the study was conducted in Cambodia, a developing environment, and the result of this study is based on decisions made by service firms, while the earlier studier looked into both manufacturing firms and service firms.

The different conclusions of this study compared to previous studies might be business environment, since this study was conducted in a developing market emerging after long periods of civil war, and enjoying a long period of political stability since 1993. In term of economy, the target place of the study was a place where customers suffered the horrible effects of a planned economic system from 1975-1993

## **6.4: Contributions and Limitations**

The theoretical contributions, limitations, and implications of this study will be explained throughout this section. This is necessary to define the boundaries of the new insights, and relates to the practical world of applying internationalization to a host country by foreign companies.

### **6.4.1: Contributions**

The general contribution of this research is its conceptual study of the strategic decision making processes of foreign firms entering a new host country. Through the process of studying this model in strategic decision by MNE context, the study has identified four new elements, while the five expectations (propositions) have been confirmed.

The theoretical contribution of this paper is important because it reveals factors influencing market entry, and it presents four new factors that previous academic theory did not recognize.

This study has contributed to building upon the academic understanding of the strategic decision making processes undertaken by foreign service firms entering a

host country. The final list of factors influencing the market entry serves as guidance for business leaders to evaluate and analyze the market entry for their companies.

### **6.4.2: Limitations**

There are three limitations in this study. The first is geographical location. The second is choice of industry, and the third is the reliance on only one interviewee per case study.

This study is confined to one country, Cambodia. This means that the result can be viewed in an international context, as Cambodia is a small country with a small population.

The life insurance industry is different from other industries. This means that the responses provided by the interviewee can be naturally skewed towards certain biases.

The reliance on one interviewee in the case study is an obvious limitation. One individual, when asked, will usually tell his/her story with his or her own point of view. All of the findings are based on the point of view from one CEO, as the study did not target more stakeholders such as employees and customers. This means that the results are based on one narrative with a managerial perspective. More narratives and stakeholder points of view may have opened up a richer and deeper understanding of the topics covered. This lack of narrative is the strongest limitation of this study.

## **6.5 Further Research**

The main contribution of this study has been theory development and the conceptual study of internationalization decisions made by a western service firm located a host Asian country. This study has helped extend the theory of internationalization strategic decision making, and is a starting point for future research. Future scholars can try to fill the gaps that this study has identified in the internationalization strategic decision making literature.

Scholars can try to analyze and test the factors influencing market entry mode choices in a quantitative research context in order to significantly validate the results made in this study. Furthermore, scholars are also encouraged to do both qualitative and quantitative studies of the new findings that the following factors are positively related to the market entry mode choices made by foreign service firms entering a new host market: the level of inexperience held by the host country's customers related to new industry, governance quality, host country's ownership policy to FDI, the firm's commitment to geographical region, and customers' adaptation to technology.

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# **APPENDIX 1**

## **INTERVIEW GUIDE**

### **Section I- Lead-in**

I would like to express my sincere thanks to you for spending time to give an exclusive interview with me.

### **Description of the Study**

My study at the University of Agder (UiA) in Norway requires that I must submit a master thesis to the university. I specifically focus on factors influencing foreign market entry mode choice of foreign firms operating in the field of life insurance in Cambodia. In order to better understand the topic, I am going to interview two CEOs of foreign firms operating in the field of insurance in Cambodia. The goal of this study is to get a better understanding of what factors influence the decision of market entry mode in Cambodia, and particularly as an international services company.

### **Formal procedures**

- a. Can I record the whole interview in order to maintain the full information and answers for my analysis?
- b. Can I identify you and/or your company in my written report or would you rather remain anonymous? (will be publicly available but anonymous)
- c. If I can identify you and/or your company in my written report would you like me to classify the thesis as confidential? (will not be publicly available).

### **Section II- Agenda**

The interview will be held in two steps. The first step, some personal questions, your personal information and your firm will be asked in order to access to preliminary information. This is followed by the second phase which will be focused more on what factors that impact the market entry mode choices of the firm. In this step, a series of questions will be posed.

You are freely allowed to answer the questions in the way you feel the most comfortable and your response is warmly accepted and noted. All of your answers to the questions are considered an invaluable contribution to this research.

#### **Step 1: Personal questions**

- Please present yourself and your role in the company?
- Please present the activities of your company in Cambodia?

#### **Step 2: Factors influencing market entry mode choice questions**

- **Interview note 1:** Ask for definitions, first in order to reflect the views and thoughts of the interviewees.
  - How do you define the choice of market entry mode?
    - Could you please give some concrete examples of this definition?
  - How do you define the mode of Joint Ventures (JVs)?
    - Could you please give some concrete examples of this definition?
  - How do you define the mode of Wholly-owned subsidiaries (WOSs)?
    - Could you please give some concrete examples of this definition?
  - How do you define the non-equity modes?
    - Could you please give some concrete examples of this definition?

- **Interview note 2:**

Firstly, an open-ended question is used and then the author uses follow-up questions while listening and recording the explanation of the interviewee by focusing on some key words in the propositions and some specific points mentioned by the interviewee.

**1. What factors made your firm decide to move to Cambodia?**

After initial general answer start asking specifically -

- If culture/cultural distance, ask why it is a factor that influences the decision to move to the country?
- If political risk of the host country, ask why it is a factor that influences the decision to move the country?
- If governance quality of a host country, ask why it is a factor that influences the decision to move the country?
- If economic forces (infrastructure, energy and transportation) of a host country, ask why each of them is a factor that influences the decision to move the country?
- If CEO's characteristics (age, tenure, and international experience), ask why it is a factor that influences the decision to move the country?
- If geographic experience of firm, ask why it is a factor that influences the decision to move to the country?
- If home country's characteristics, ask why it is a factor that influences the decision to move the country?
- If host country's characteristics, ask why it is a factor that influences the decision to move the country?
- The same questions will be raised to the interviewee in case the interviewee mentions any other factors that influence the decision of market entry mode to Cambodia.

**2. Has the mode of your operation in Cambodia change over time? If yes, how did it change?** Were there different strategies and organizational arrangements in different periods of time?

**3. What are the factors influencing your firm mode of current operation in Cambodia?**

**4. How do these factors influence your firm?**

**5. Did you experience cultural differences between the home country of your organization and Cambodia?**



6. **How does the choice of market entry and operations mode influenced by Culture Distance and differences? If at all?**
  
7. **What make the choice of market entry mode of the firm successful?**

### **Section III: Closing**

Thank you very much for answering all of these questions and as this is the closing of the interview I would like to ask you some ending questions.

1. Anything that I did not cover and you would like to add?
2. Do you want to receive a digital copy of this video/audio interview?
3. Do you want to receive a digital copy of my final thesis when it is done?
4. Can I contact you once more via email for follow-up questions and clarifications at a later stage?
5. Can I send you my case summary for feedback and comments?

This is the end of my interview – Thank you very much for your sincere cooperation and I am forever grateful for your kind assistance on this master thesis and dissertation.

## APPENDIX 2

### REFLECTION NOTE

#### Introduction

This paper has looked into factors influencing the market entry of international firms entering the developing nation of Cambodia. The results of the research that is based on a case study with an international life insurance company from Canada indicates nine factors that related to the market entry of the firm. Of the nine factors, four were first discovered during this study. Those four factors are customer familiarity with new product/service, host government's ownership policy, firm's commitment to certain geographical region, and customers' adaptation to technology. Five other factors--cultural distance, governance quality, political risk, economic growth, and a firm's geographical experience--are also confirmed. The following is a table that includes factors that have been confirmed and found:

#### Summary of the Results

| No. | Independent Variable                          | Dependent variable  | Confirmed/ New Found? |
|-----|---|---------------------|-----------------------|
| 1   | Cultural distance                             | <b>Market Entry</b> | Confirmed             |
| 2   | Governance quality                            |                     | Confirmed             |
| 3   | Political risk                                |                     | Confirmed             |
| 4   | Economic growth                               |                     | Confirmed             |
| 5   | CEO characteristics                           |                     | Discarded             |
| 6   | A Firm's geographical experience              |                     | Confirmed             |
| 7   | Customer familiarity with new product/service |                     | New                   |

|    |  |  |     |
|----|--|--|-----|
| 8  | Host government's ownership policy               |  | New |
| 9  | Firm's commitment to certain geographical region |  | New |
| 10 | Customers' adaptation to technology              |  | New |

## Reflection

In this section, the results of the study will be discussed and reflected upon in order to assess how international forces impact the discovered factors. Three subsections will be discussed and reflected upon: 1) Impact by International Forces, 2) Innovation, and 3) Potential Ethical Challenges.

According to James D. Underwood, those international forces include market forces, technological forces, economic forces, ideological forces, political forces, political & governmental forces, media forces, psychological/sociological forces, moral/ethical forces, weather & other environmental forces, and legal/regulatory forces. First, it should be understood that this study specifically focused on the internationalization of foreign service firms that entered a host developing country, and the target firm was operating in life insurance. In such a developing business environment context, some of the international forces may ultimately affect the results of the study. The following is a discussion of some of the international forces that influence the factors found in the study.

### 1. Impact by International Forces

#### Market Forces

According to James D. Underwood, market forces affect the supply, demand and price of products. Through this finding, customer familiarity with a new product/service has a positive relationship with the market entry of international service firms, and the market forces are key factors that drive the potential demand in the new market. Cambodia is the target place of the study, and the nation has never experienced life insurance. The finding indicates that inexperience with new products or services creates a level of curiosity among customers. This is one of the factors that influence the market entry of the firm, and this factor-- customer familiarity with new product and service--is influenced by market forces in the country. Therefore, the entering firms should look into unmet customer needs, new competitors, and merger & acquisitions that may strengthen the competitors or cause the firm to lose the suppliers or competitors, and changes in supply chain and distributors.

#### Technological Forces

Technological forces impact everything in business from how a product is produced and how a customer uses it. The results of this study indicate that customers' adaptation to technology is one of the factors that influence the market entry of the firms, and this factor is influenced by technological forces through the way customers use the product/services. For example, customers more likely tend to use mobile phone for purchasing products and banking access.

Therefore, the entering firms must increase their role play in keeping track on technological forces and keeping providing advice/recommendation of how these forces affect each area of the firm.

### **Economic forces**

Economic forces refer to infrastructure, energy, and transportation facilities and all sorts of economic events may impact a business from an economic downturn to a better economic recovery. The results of this study reveal that economic growth is one of the factors that influence the market entry of the firms. In the case study, a long term economic growth with the constant growth rate of 7 percent for over a decade has a positive relationship with the market entry of the firm. However, the customers in the target market suffered the horrible effects of a planned economic system from 1975-1993. Since economic growth has been changing in many different periods in the host country, the entering firms must continually monitor such events so that the firms may avoid negative effects and in order to catch any golden opportunity that may exist.

### **Political and Government Forces**

The results of this study reveal that political stability and government policy are two of the factors that influence the market entry of the firms. Through the case study, a long period of political stability in the target market creates a potential preference for the firms to enter it. Also, the host government's ownership policy to foreign companies has a positive relationship to the market entry of the firm. The two factors are components of the political and government forces that impact the business. Since the government is the body who plays a major role in determining how business operate and changing policies on business, the entering firms need to observe and keep watching on what the government has done and political issues that may affect the business.

### **Psychological and Sociological Forces**

From this study, cultural distance is one of the factors that was found as influencing the market entry of the firms. Sociological forces refer to the factors that drive what the customers buy and where and how the customers buy the products. Culture/cultural distance in the host country drive the purchasing decisions, and customer behavior is affected by social media and attitude of others in the society. Therefore, the entering firms should adapt to the developing needs and preference.

## **2. Innovation**

Innovation, according to a vast literature, refers to differentiating a product or service from the previous ones. Two separate points that the study has uncovered in relation to international setting. The target firm of the study was a life insurance company from Canada. As the first life insurance firm to enter Cambodia, two interesting innovative types of services were offered. The first one was a saving package which made it different from the traditional insurance activities. This means a customer, who buy life insurance package from the company for the period of 10 or 15 years, will receive his/her own investment plus interest rate as he/she saves the money in the bank. The benefit the customer receives from the firm is compensation from the firm if he/she encounters accidents during the period of this life insurance contract. This might make some of the customers switch their investment in the bank to buy the insurance. The second type of innovative service was that once a customer decides to purchase the insurance product, his/her electronic device was installed with banking mobile program with free of charges, with the customer receiving training on how to use the program. This is a different service from the traditional insurance service. In relation to the results of this study, technological forces are the main factor that influences the purchasing decisions by customers, and decision of the firm to enter the country.

## **3. Potential Ethical Challenges**

In such a developing business environmental context like Cambodia, the business may encounter many potential ethical challenges including unfair competition and corruption. In some countries, the government has good laws and policies, but low enforcement. In some cases, the government ignores bribery in business practice, and allows unfair competition based on nepotism and corruption. According to the Corruption Perceptions Index issued by Transparency International (2016), Cambodia ranked number 156 out of 176 countries. This means the level of corruption is high in the country, and this might create potential ethical challenges for the entering firm since it has had cooperation with private financial institutions-banks and the government-the Ministry of Finance and Economy. Therefore, the entering firm needs to have the safest approach in order to deal with moral and ethical issues that impact its business. First, the firm has to hire quality persons to work for it. These people need to hold everyone in the company to highest standards. Also, the firm needs to treat everyone including customers, suppliers, distributors, and even competitors with respect. As well, the firm needs to form a special group by using the hired qualified people, for example: competitive intelligence (CI) so that they can help the company gains insight into what is expected and build the firm's reputation. Moreover, the group could help identify behaviors that can get the firm into trouble. This CI can also help top management of the firm recognize problems that exist within the organization and improve it for a better ethical practice.

## **Summary**

In sum, five international forces potentially impact the results of this study. The five forces include market forces, technological forces, economic forces, political and government forces, and psychological and sociological forces. Technological forces and saving package (financial market) are found as innovative service provided by the Canadian life insurance firm operating in Cambodia.

In addition, two potential ethical challenges--unfair competition and corruption--have been tracked as influencing how the entering firm chooses to operate in the developing market. This note suggests that the entering firm establishes a special group, Competitive Intelligence (CI), by hiring qualified people to train internal staff with the highest standards and help leadership recognize problems within the firm and to improve for a better ethical deal.