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DETERMINANTS OF MNES' ENRTY MODE STRATEGIES: EMPIRICAL EVIDENCE OF OWNERSHIP ADVANTAGES FROM SYRIA AND JORDAN

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ABSTRACT

In this paper, the authors provide an analysis of ownership advantages affecting investors' entry mode strategies into foreign markets. The study based the analysis on three types of ownership advantages including Intangible Asset Advantages (IAA), Advantages of Common Governance (ACG), and Home Country-Specific Advantages (HCSA). Using a sample of 303 foreign affiliates, this paper empirically examines the choice of MNEs' among a wholly owned subsidiary (WOS) and a joint venture (JV). The required data were collected from senior executives of Multinational Enterprises' (MNEs) subsidiaries operating in Syria and Jordan. Quantitative analysis of available evidence reveals that the impact of investors' entry modes into foreign markets in respect of intangible asset advantages, advantages of common governance, and home country-specific advantages receive strong support from the findings of this study. Similarly, available empirical evidence reveals that senior executives perceiving an increased importance of these assets will choose a WOS over a JV when entering into a new market in the Middle East.

Keywords: International Business, Ownership Advantages, Multinational Enterprises (MNEs), Foreign Direct Investment (FDI), Wholly Owned Subsidiary (WOS), Joint Venture (JV).

INTRODUCTION

FDI plays an essential role in the long-term economic development of developing countries with the potential to create real jobs for the home-country citizens, raise productivity, enhance exports, and transfer technology (UNCTAD, 2003). It can also contribute positively to the growth and development of developing countries by bringing in capital, technology, market access, and managerial skills (Blomstrom and Kokko, 1998; De Mello, 1997, 1999; Pack and Saggi, 1997; Balasubramanyam et al., 1999; Borensztein et al., 1998). According to UNCTAD (2008), one of the aspects that will help developing countries in accelerating or sustaining the pace of their economic and social development is to have good quality infrastructure. Undeniably, developing countries need FDI in infrastructure to reach their growth targets as they necessitate foreign capital in order to enhance their domestic savings (Ramamurti, 2004). Therefore, developing countries require urgent investments aimed at strengthening the infrastructure, industries and services in areas such as water, electricity, telecommunications, and transport (UNCTAD, 2008). Although governments, the private sector and other stakeholders in these countries are contributing in the infrastructural investments, the amount of investments needed still exceeds their overall contribution (UNCTAD, 2008). Developing countries in general currently invest 3–4% of their GDP annually in infrastructure while they need to invest an estimated 7–9% to attain better economic growth and poverty reduction (UNCTAD (2008). Obviously, this results in an enormous gap between the current volume of investments and what is actually required. This raises the question of how developing countries should fill this gap. Mayer (2004, p. 259), assets that MNEs have very important role "in linking rich and poor economies and in transmitting capital, knowledge, ideas and value systems across borders." Filling this investment gap requires MNEs to be involved intensively in infrastructural investments in particular and investments in general, and at the same time maximizing the benefits of host developing countries from MNEs' technological and other assets (UNCTAD, 2008). The question that readily comes to mind is what urges MNEs to engage in such operations and undertake such investments? Meyer and Estrin (2004) argue that MNEs, especially those with ambitious growth aspirations, put developing countries at the top of their priorities in their global strategic agenda. Therefore, MNEs and developing country policy-makers have 'a common interest' in encouraging FDI (Meyer and Estrin, 2004, p. 1).

Nevertheless, there should be great efforts by governments of developing countries to encourage MNEs to undertake FDI in their countries. Undertaking such investments by MNEs actually depends on a complicated environment since each developing country has its own political, economic, legal systems and culture, which create a major problem for them to attracting significant FDI inflows. One of the key decisions facing MNEs in their global expansion is which entry mode strategies should they choose? Kaynak et al. (2007) postulate two main entry mode strategies MNEs can choose from - a wholly owned subsidiary (WOS) and a joint venture (JV). While the first strategy allows full control of the foreign affiliates, the second strategy offers sharing the risk and combining complementary strengths, mainly local market knowledge of a target market partner (Kaynak et al. (2007). These authors argue that JV is the most strongly supported strategy in emerging market environments. The decision of MNEs to choose between WOS and JV is not straightforward and can be very complicated as it is dependent on different group of factors such as national, industrial, organisational and project factors (Kaynak et al. (2007). Against this background, this paper makes its contribution by providing an important evidence of foreign investors' entry mode strategies in two developing emerging market, Syria and Jordan. Specifically, the objectives of this paper are to (a) provide a parsimonious set of ownership factors for the sample studied and test their validity by means of EFA and CFA, and (b) to develop and test hypotheses by means of logistic regression analysis on the relationship between ownership factors and the two entry mode strategies of the foreign investors. To achieve these objectives, this paper is structured as follows: We start with the discussion of the theoretical background followed by the research setting. The next section provides the methods used to collect the empirical evidence. The third section covers the data analysis. The penultimate section provides the analysis and discussion of the evidence. The final section deals with the conclusions, limitation and the direction for future research.

RESEARCH SETTING

This study focuses on the Middle East region, more specifically, Syria and Jordan. Syria and Jordan are neighbouring countries in the Middle East. The relations between them have ancient roots; the two countries were in the past a part of one country called "Bilad Ash-Sham" or "Greater Syria". That explains why those two countries are closely integrated and share very close social, cultural and historical ties. However, both countries enjoy the following common characteristics: (a) both countries are located in a distinguished geographical location, where the three continents meet, as they are located at conjunction of Europe, Asia and African. They are well situated as a regional entry point, being well connected to neighbouring countries and global markets through modern transportation and communication networks. They also serve as a focal point for trade and investment within the Middle East and North Africa region (MENA), particularly for the Iraqi and Gulf markets. Their location allows for diversification and expansion into increasingly affluent markets. (b) Both countries enjoy stable and safe political structure and remarkable national intimacy. The political environment of both countries offers constancy and a climate lead to advanced open market economy. Both countries signed free trade agreements with the Arab countries, Turkey, and EU. (c) Both countries have had low external indebtedness and stable exchange rate for many years, good infrastructure, equipped and continuously developing industrial cities, free zones, skilled workforce and low wages, available and diversified natural resources, and low production costs. (d) Syria and Jordan are classified by World Bank as low-middle income economies. (e) Both countries have launched a series of reforms in order to attract more foreign investments by offering foreign investors special advantages, exemptions, facilitations and guarantees to investment projects, and many other incentives that are promoted through investment encouragement legislations. In addition, both countries have taken different important actions in this regard like advancing the private sector, signing various multilateral and unilateral trade agreements, and upgrading their legal system to cope with international business needs. (f) Both countries have feasible and various projects in different sectors that are available to foreign investors. The required data were collected from November 2009 and February 2010, thus the research escaped any instability in the Middle East region.

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THEORETICAL BACKGROUND

Entry Mode Strategies

The choice of entry mode strategies in respect of MNEs’ geographical expansion into a foreign market has become increasingly a major topic in the field of international business (Hill et al., 1990). While there has been an immense body of literature on entry modes into foreign markets (Brouthers et al., 1996), and the location determinants of FDI (Cleeve, 2006), there have been only few studies that addresse the impact of ownership advantages of MNEs on entry mode strategies of MNEs. As stated in the introduction,there are two foremost strategies that MNEs consider when undertaking FDI; joint venture (JV), and wholly owned subsidiary (WOS). Each of these strategies is consistent with different levels of control and resource commitments (Kim & Hwang, 1992). Control refers to the authority over operational and strategic decision-making; resource commitment refers to dedicated assets that cannot be redeployed to alternative uses without loss of value (Kim & Hwang, 1992). Reviewing the literature on those strategies reveals that while wholly owned subsidiaries can be characterised by a relatively high level of control and resource commitments, the levels of control and resource commitments vary in joint ventures with the nature of the ownership split (Kim & Hwang 1992; Hill et al., 1990). In this context, this study focuses on the choice between JVs and WOSs, which involve higher control and higher resource commitment.

Ownership Advantages

Dunning (1980, 1988) proposed a comprehensive approach based on ownership, location, and internalisation advantages to explain the investment decision of MNEs. According to Dunning and Lundan

(2008), MNEs will undertake FDI based on the availability of the following four essential conditions. The first condition is that a firm may possess ownership-specific advantages (O) over other firms when serving a specific market or country. The second one is that a firm may realise the best benefit in internalising the (O) advantages by having market internalisation specific advantages (I), but not through selling or renting them. The third one is that the chosen host country might have locational advantages (L) and if this is the case then it is worthwhile to undertake FDI in this country than in other countries. The last condition is that a firm may undertake FDI in accordance with its long-term strategy.

Ownership advantages are the novel assets that an MNE possesses and these assets form the competitive advantage of the firm. These advantages, based on the eclectic paradigm's classification (Dunning and Lundan 2008a), include intangible assets such as technology, advantages generated from the MNEs' common governance such as multinational experience, and institutional assets such as home government incentives on international operations. Since most of these assets are tacit in nature and subject to higher risks of dissemination (Tatoglu and Glaister 1998a), MNEs prefer entry mode strategies that involve higher resource commitments and higher control to maintain their assets. Consequently, the more an MNE possesses high-prominence assets the better it is to have full control over its subsidiaries (Agarwal and Ramaswami 1992; Tatoglu and Glaister 1998a; Brouthers et al. 1999; Brouthers 2002; Chiao et al. 2010). In the next sub-section, we discuss ownership advantages which include the following constructs: IAA, ACG and HCSA.

Theoretical framework

- Intangible Asset Advantages (IAA)

Intangible assets such as technology resources, firm's reputation, and management and organisational expertise have proved to play an important role in the decision of MNEs to locate their activities and determine their entry mode strategy (Dunning 1980; Galan and Gonzalez-Benito 2006; Tseng et al. 2007; Chiao et al. 2010; Maekelburger et al. 2012). The more an MNE possesses intangible assets, the higher is the perceived risk of their leakage when cooperating with other firms. In this case, the MNE prefers to establish a wholly owned subsidiary rather than to engage in a joint venture with another firm (Agarwal and Ramaswami 1992; Kim and Hwang 1992; Erramilli and Rao 1993; Tatoglu and Glaister 1998a; Taylor et al. 1998; Brouthers 2002; Chiao et al. 2010). This leads to the formulation of the following hypothesis:

H1: The higher the relative importance of Intangible Asset Advantages (IAA) the more likely that an MNE will choose a WOS over a JV.

- Advantages of Common Governance (ACG)

Assets generated based on the MNE degree of multinationality such as size of the firm (i.e. economics of scale/scope), international experience, and financial resources have proved to play an important role in the decision of MNEs to locate their activities and determine their entry mode subsidiaries (Dunning 1980; Galan and Gonzalez-Benito 2006; Chiao et al. 2010; Maekelburger et al. 2012). The more an MNE degree of multinationality increases, the more advantages will be gained (Endo and Ozaki 2011) and the stronger is the competitive position of the MNE. In this case, the MNE prefers to establish a wholly owned subsidiary to exploit its multinational advantages rather than to engage in a joint venture with another firm (Agarwal and Ramaswami 1992; Brouthers et al. 1999; Delios and Beamish 1999; Chiao et al. 2010). This leads to the following hypothesis:

H2: The higher the relative importance of Advantages of Common Governance (ACG) the more likely that an MNE will choose a WOS over a JV.

- Home Country-Specific Advantages (HCSA)

The revised eclectic paradigm distinguishes between three different types of ownership (O) advantages, Asset-specific advantages (Oa), Transaction cost minimising advantages (Ot), and the institutional assets (Oi) (Dunning and Lundan, 2008a, 2008b). The institutional assets (Oi) - the new addition to the paradigm - cover the range of formal and informal institutions that govern the value-added processes within MNEs (Dunning and Lundan, 2008a, 2008b). These advantages integrate the firm-specific norms and values guiding decision-making, along with the influence of the institutional environment of the home country (Cantwell et al. 2009). Therefore, these advantages can be transferred (intentionally or unintentionally) together with other ownership advantages to host countries, and may have an impact on the institutional development of the host country (Cantwell et al. 2009). Along with the institutional advantages of home country, the home country-specific advantages, which include other resources and benefits available in the home country such as the availability of skilled workforce have proved to play an important role in the decision of MNEs to locate their activities and determine their entry mode strategies (Dunning and Kundu 1995). Home country advantages are significant for MNEs expansion and growth regardless of their degree of multinationality as the lack of support from industries and government at home is considered a major constrain (McGahan and Victer 2010). Consequently, the more an MNE gained advantages in its home market, the more superior it will be against host market competitors. In this case, the MNE prefers to establish a wholly owned subsidiary to exploit home market advantages rather than to engage in a joint venture with another firm. The above ideas are expressed in hypothesis form as follows:

H3: The higher the relative importance of Home Country-Specific Advantages (HCSA) the more likely that an MNE will choose a WOS over a JV.

The next sub-section presents the data and methodological approach used in this study.

METHODOLOGY

Data collection procedure

The data for this study were collected directly from subsidiaries of international firms in Syria and Jordan in order to enhance this research area due to the lack of good, firm-level data on FDI and location decision regarding those two countries. International companies identified for inclusion in this study were drawn from the database of the Federation of Chambers of Commerce in Syria and Jordan. The companies were selected according to the following criteria: (1) companies that are fully foreign-owned subsidiaries, and (2) companies that are joint ventures (partly foreign-owned subsidiaries). This study targeted around 1442 multinational companies' subsidiaries in both countries. After removing those, which were branches of foreign companies, distributors, franchisees, the survey was then applied to the 418 resulting firms, which have undertaken FDI. A questionnaire method was considered as the most appropriate way for collecting the required data for this study. The questionnaires were administered after a thorough review of the extant literature. It consists of the above-mentioned constructs. The questionnaire asked each of the participated companies to evaluate the significance of each factor using a five-point Likert Scale from 1 to 5 where 1 is the least important and 5 is the most important.

The questionnaire was developed to ascertain the opinion of the key decision-makers in the targeted companies (the respondents) on a number of factors proved to influence the decision of MNEs to undertake FDI in a specific location. Employees who participated in the completion of the questionnaire includes, top management officers such as Chief Executive Officers (CEO), Managing Directors, General Managers, Country Presidents, Partners, or any other equivalent designation of each company. The questionnaire was thoroughly revised by and discussed with several academics in the UK, Syria and Jordan before the final version was distributed to the respondents. It was also pre-tested through personal interviews with top executives of four companies who were not later asked to take part in the study. This process enhanced the quality of the questionnaire and improved its design, content, wording and most importantly clarity and ease of understanding, therefore making it much easier and more attractive to answer. The questionnaire was mostly administered through personal interviews with interviewees in the firms who participated in the survey. The interviewees completed the questionnaire themselves in the presence of the principal interviewer, offering complete guidance and confidentiality to them. The sample size obtained was 303 usable questionnaires and the data were analysed using SPSS and AMOS.

Sample profile

This sample of this study consists of 303 subsidiaries operating in Syria and Jordan, around 51% of them were wholly owned, whereas, the rest of them engaged in joint ventures with selected partners. As noted before, the data of this study was collected via questionnaire from multiple sectors. Based on the sample of this study, the manufacturing industry represents 29.4% of the sample, followed by the non-financial services sector represents 25.1% of the sample, and the financial services sector accounts for 21.5%. In addition to those three major sectors, the rest of the sample are represented as follows: 5.9% construction companies, 5.6% agriculture, hunting, forestry and fishing, 5.3% trade, 3.6% mining and quarrying, and 3.6% restaurants and hotels. As can be noticed, the sample of this study is a multi-sector sample and the majority of the participated companies in this study are operating in the services sector. The next section presents the statistical inferences of this study.

DATA ANALYSIS

Results of multivariate analysis

In this study, multivariate data analysis technique was adopted. The analysis has been carried out in two stages. First, a validity test of the study measurements was utilised using exploratory factor analysis (EFA) and confirmatory factor analysis (CFA). An exploratory factor analysis (EFA) was applied using SPSS in order to examine the structure of the interrelationships (correlation) between the variables of the constructs, and to establish the suitability of the constructs for performing the proposed multivariate analysis. The results of the EFA after deleting items with cross loadings and commonalities less than 0.50 following statistical rule of thumb by Hair et al. (2006), showed variables loadings more than 0.50 and yielded the same structure of the constructs. This confirms that all constructs have an independent structure. The second stage in the multivariate analysis of this study was to conduct confirmatory factor analysis (CFA) for the set of variable resulting from the EFA. The CFA was conducted using AMOS and the results showed a very good fit of the model (GFI:0.908 > 0.9, AGFI:0.867 > 0.80, CFI:0.955 > 0.90, RMSEA:0.074 < 0.80). During the CFA procedures, some variables were deleted in order to improve the goodness of fit for the model following Hair's et al. (2006) statistical rule of thumb. The results of the CFA and the reliability of each construct are presented in the table 1 below. Table 1 shows that all the variables have high loadings (> 0.70) and strong reliability (Cronbach's Alpha > 0.7). Therefore, we can report that all constructs are valid and reliable measurements for the host-country location factors.

Table 1: Confirmatory Factors Analysis (CFA) Results

Code	Construct	Loading	Cronbach's Alpha
	Intangible Asset Advantages (IAA)		0.913
IAA2	Firm's reputation	0.887	
IAA3	Experience in the national market	0.918	

IAA5	Management and organisational expertise	0.873	
	Advantages of Common Governance (ACG)		0.934
ACG2	Experience and knowledge about international markets	0.948	
ACG3	Products / services superior to the competition	0.933	
ACG4	Firm's financial resources	0.777	
	Home Country-Specific Advantages (HCSA)		0.976
HCSA1	Size and growth of home market	0.895	
HCSA2	Home government assistance and incentives on international operations	0.945	
HCSA3	Support from the financial sector and banking system at home	0.928	
HCSA5	Availability of skilled workforce from home country	0.913	
HCSA6	Availability of low-cost workers from home country	0.922	
HCSA7	Home country's trade agreements with other countries	0.92	
HCSA8	Agreements with foreign companies	0.902	

Hypotheses testing results

A logistic regression analysis was utilised to test the hypotheses of this study on the functional relationships between the hypothesised effect variables and ownership strategies of foreign investors. The analysis included an examination of MNEs' choice between full ownership (WOS) and shared ownership (JVs) of the subsidiaries. The dependent variable was the entry mode strategies, which was measured by categorical values of 1 for WOS and 0 for JV. The independent variables were the ownership factors that resulted from the CFA. Table 2 presents the results of logistic regression and the goodness of fit of the model. The results of the regression show that all coefficients of the model were significant ($p<0.05$), intangible asset advantages, advantages of common governance, and home country-specific advantages. Consequently, this study found a good support for hypotheses 1, 2, and 3. The overall model fit is acceptable; Chi-square was significant at level ($p < 0.01$) with a value of (21.968) and the Hosmer and Lemeshow test was insignificant at ($p > 0.05$).

Table 2: Results of Logistic Regression for the Entry Mode Strategies				
Variable Code	**Variable Name**	**Dependent Variable** Entry Mode Strategies (JV=0, WOS=1)		
		Coefficient	**Walad Statistic**	**Sig.**

IAA	Intangible Asset Advantages	0.451	6.792	0.009
ACG	Advantages of Common Governance	0.343	5.985	0.014
HCSA	Home Country-Specific Advantages	0.423	9.952	0.002
	Constant	-4.410	16.872	0.000
N	303			
Selected Cases	303			
Model Chi-square	21.968			0.000
-2 Log likelihood	397.997			
Hosmer and Lemeshow Test	0.876			
Classification (Overall Percentage)	58.7			

DISCUSSION

Hypothesis 1 which suggests that the higher the relative importance of Intangible Asset Advantages (IAA) the more likely that an MNE will choose a WOS over a JV receives strong support using the full sample of this study. The finding reveals that intangible asset advantages have a positive and strong relationship with the MNEs' entry mode choice. This means that the likelihood of choosing a WOS increases as the perceived importance of these advantages increases. This finding contradicts with past studies (Agarwal and Ramaswami 1992; Taylor et al. 1998; Brouthers 2002) suggesting that these advantages have no impact on the MNEs' choice of entry mode strategy. However, the significant and positive relationship reported in this study is consistent with prior studies (Kim and Hwang 1992; Erramilli and Rao 1993; Tatoglu and Glaister 1998a; A. Delios and P.W. Beamish 1999; Chiao et al. 2010) that found that these advantages have a major impact on selecting a WOS over a JV. MNEs possessing intangible asset advantages (i.e. firm's reputation, experience in the national market, and management and organisational expertise) have a propensity to serve the markets of Syria and Jordan through FDI selecting an entry mode strategy of a WOS rather than JV.

Hypothesis 2, which posits the higher the relative importance of Advantages of Common Governance (ACG) the more likely that an MNE will choose a WOS over a JV, also receives strong support from the findings of this study. The findings show that advantages of common governance have a positive and strong relationship with the MNEs' entry mode choice. This means that the likelihood of choosing a WOS increases as the perceived importance of these advantages increases. The significant and positive relationship is consistent with prior studies (Agarwal and Ramaswami 1992; Brouthers et al. 1999; Delios and Beamish 1999; Delios and Beamish 1999; Chiao et al. 2010) that found that these advantages have a major impact on selecting a WOS over a JV. MNEs possessing advantages of common governance (i.e. experience and knowledge about international markets, products/services superior to the competition, and firm's financial resources), have a propensity to serve the markets of Syria and Jordan through FDI selecting an entry mode strategy of a WOS rather than JV.

H1c: which postulates that the higher the relative importance of Home Country-Specific Advantages (HCSA) the more likely that an MNE will choose a WOS over a JV. Receives support based on the data analysis of this study. The result reveals that home country-specific advantages have a positive and strong relationship with the MNEs' entry mode choice. This means that the likelihood of choosing a WOS increases as the perceived importance of these advantages increases. The significant and positive relationship is consistent with a prior study Erramilli (1996) suggesting that the size of the home country has a major impact on selecting a WOS over a JV. When MNEs possess home country-specific advantages (i.e. size and growth of home market, home government assistance and incentives on international operations, support from the financial sector and banking system at home, availability of skilled workforce from home country, availability of low-cost workers from home country, home country's trade agreements with other countries, and agreements with foreign companies) they have a propensity to serve the markets of Syria and Jordan through FDI by selecting a WOS entry mode strategy over a joint venture entry mode strategy. The next section presents the summary of the main findings of this study and conclusion.

CONCLUSION

Drawing on the findings of this study, the inevitable choice of MNEs between JVs and WOSs appears to be considerably driven by the novel assets that multinational enterprises possess which form the basis of their competitive advantage over their rivals in foreign markets. These assets specifically include intangible asset advantages, advantages of common governance, and home country-specific advantages. Hence, the likelihood of MNEs choosing a WOS as a main entry mode in a foreign market increases as the perceived importance of these advantages increases. Although our study provides awareness into MNEs' entry mode strategy into foreign markets, it has a limitation. The study relied heavily on data from two countries in the Middle East - Syria and Jordan, thus the generalizability of these results to other developing countries remains to be established. Nonetheless, this case study gives discerning and valuable information of what may be expected in other developing countries in the Middle East, Africa and Asia

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