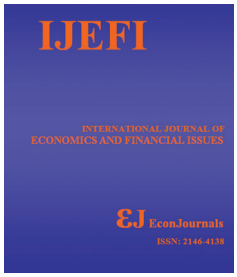


International Journal of Economics and Financial Issues

ISSN: 2146-4138

available at http: www.econjournals.com

International Journal of Economics and Financial Issues, 2016, 6(2), 666-670.

Entry Mode of Firms in an Emerging Economy: Evidence from Malaysia

Kausar Yasmeen[1]*, Kuperan Viswanathan[2]

[1]School of Economics, Finance and Banking, Universiti Utara Malaysia, Malaysia, [2]School of Economics, Finance and Banking, Universiti Utara Malaysia, Malaysia. *Email: eco.yasmeen@gmail.com

ABSTRACT

The dynamics of the global competition patterns and world economy are encouraging construction firms to expand into emerging economies. Entry modes and its predictors have been the subjects of interest in international market strategic management research which is nonetheless lacking in the construction firms. This paper seeks to identify the entry modes preferred by construction firms in Malaysia, on whether they choose equity modes, non-EQ modes or both modes for their international projects. The cross-sectional data was collected by distributing 119 questionnaires; the response rate was 53%. By applying multinomial $\log_{it}$ model, this study validates the proposition that entry mode selection in an emerging economy is significantly influenced by situational contingencies at three levels of country-specific factors (*CSFs*) which are government intervention, property right and environmental uncertainty. Entrepreneurial skill (*ES*) is the predictor of entry mode. The effect of the *CSF* and *ES* on entry mode of construction firms depend on a level of *ES*. This study contributes to the international market strategic management choice of entry mode.

Keywords: Entry Mode, Firms, Country-Specific Factors, Emerging Economy
JEL Classifications: M, M5, M21

1. INTRODUCTION

For economic growth, the construction sector is an important sector which governs the lions-share of financial resources. The construction industry has numerous relations with other sectors of an economy, it is important to conduct the study on this sector. Previous researches suggested that Malaysian construction firms need to be paid attention due to their contribution to an economy (Khan et al., 2014). Entry modes and factors influencing the entry mode selection have been the subjects of interest in international market strategic management research, but there is still lacking in the construction area particularly in Malaysia (Isa et al., 2014a; 2014b). Previous studies have paid insufficient attention to entry mode selection in emerging economies. So, the current study plays a significant role by conducting a study on the entry mode of construction firms. Hence, the construction sector is considered as the driver of economic development especially in emerging economy like Malaysian economy. The government in any economy and firms has one same aim which is, profit making. Construction firms provide the infrastructure which later becomes a source of profit for the government, firms also aim to earn the profit (Abdullah and Zain, 2011). The government actions affect the firms' entry. According to the budget of Malaysia, from mid-2016, prices of inputs will rise which will affect output. It is expected that the growth of the different sectors in 2016 will be slower due to a combination of unfavorable factors: Impact of goods and services tax, economic slowdown, an increase in wages and depreciate Malaysian ringgit (Ho, 2015). The budget and planning of 2016 shows that the firm's will pay more cost and their profit will decline owing to this might be the entry of construction firm would decline. Hence, in the context of an influence of country-specific factors (*CSFs*), those firms which have the entrepreneurial skill (*ES*) might enter in the market because of their confidence of survival and making the profit owing to their *ESs*. So, the effect of the *CSF* and *ES* on entry mode of construction firms might depend on the level of *ES*. Maybe entrepreneur skills play a moderating role but the current study failed to find the effect of *ES* on entry mode or effect of moderating role of *ESs* between specific country factors and entry mode of construction firms in literature, So this study is therefore original and is expected play a significant role by examining the direct and indirect impact of *ESs* on entry mode.

Government intervention (*GI*), property rights system (*PRS*), and environmental uncertainty (*EU*) have impact on the entry mode. There are several studies on the impact of uni-dimensional *CSFs* on entry mode, but there is still few studies which examine the impact of the dimension of *CSFs* on construction firm entry choice. However, in emerging economies, construction firms operations even though their industrial and national environments are very different from those of developed market economies. They are often characterized by high uncertainty, governmental interference, and limited protection of intellectual property rights (Luo, 2001). However, current study is significant owing to contributing theoretically and practically by examining the impact government intervention, property rights system, environmental uncertainty and direct and indirect impact of entrepreneurial skill on construction firms' entry choice in an emerging economy of Malaysia. Additionally, this study contributes to international market strategic management, economically and socially. So the current has a significant role by contributing socially and economically.

2. LITERATURE REVIEW

Entry modes were grouped under equity (EQ) and non-EQ (NEQ) modes and they are differentiated from each other based on the resource commitment level (Chen and Messner, 2011). Dividing entry mode into two groups limited the choice for respondents. Might be the owner of the form is using both modes. So, it is important to give maximum choices to the owner to know which mode of entry he is using. Research has consistently revealed that choosing suitable entry mode is crucial in the firms' decision to enter in any economy, and most importantly grow and sustain in the international market. Hence, this current study is conducted to investigate suitable entry mode choices (EQ or NEQ or BOTH modes) for construction firms in their international market expansion process. Therefore, this study examines the entry modes chosen by the Malaysian construction firms, whether they choose the EQ mode, NEQ modes or both modes (BOTH) for their international projects. Under the EQ mode group, there are Joint Venture Company, strategic alliance, the wholly-owned subsidiary, joint venture project, and build-operate-transfer EQ project. NEQ includes, there are representative office, local agent, sole venture project, and licensing, sole venture company and branch office/company. This study examines the impact of *CSFs* and *ESs* on construction firms' entry mode choices.

CSFs include three factors (*GI*, *PRS*, and *EU*) which impact on entry mode (Luo, 2001). When *GI* into venture operations in a host country is likely to be high, a cooperative entry mode is more valuable construction firms. The construction firm is advised to use the EQ mode to limit its exposure by reducing its resource commitment and increasing its ability to exit from the market quickly without taking a substantial loss should the environment worsen (Gomes-Casseres, 1990). The cooperative mode is often supported because local EQ partners may have some impact on host government policies, along with a vested interest in speaking out against intervention (Dalgic and Bloemen, 2015). Local partners buffer the possibly less supported influences of the host government's bargaining power and decrease transaction costs incurred in a turbulent environment (Luo, 2001). Therefore, when *GI* over venture operations, as perceived by construction firms managers, is high, foreign companies are more likely to employ a cooperative entry mode and less likely to use the EQ mode. Thus:

Hypothesis 1: In an emerging economy, the level of *GI* as perceived by construction firms will effect on their entry mode.

*PRS*s are generally weak in emerging markets in terms of both enactment and enforcement (Luo, 2001). Without sufficient legal protection, construction firms property rights and tacit knowledge such as copyrights, trademarks, know-how, patents, brand names, and the like will be exposed to possible piracy and infringement through local firms. In such situation, the construction firm with high economic exposure may prefer an EQ subsidiary as a control mechanism for safeguarding its proprietary knowledge and as an organizational system internalizing offshore businesses (Davidson and McFetridge, 1985; Dunning, 1988). So, when a construction firm invests in an environment secularize through limited property rights and a nascent contractual framework, the EQ mode supports to ensure the best deployment of its strategic assets without enhancing to uncompensated leakage to others. Thus:

Hypothesis 2: In an emerging economy, the level of property rights protection as perceived construction firms will effect on their entry mode.

Most emerging economies are characterized by *EU* volatility than developed market economies (Boisot and Child, 1988; Peng, 2000). When uncertainty is high, a greater level of ownership potentially entails more switching costs should undesirable events occur (Williamson, 1985). Owning strategic assets might deprive the owner of the elasticity of making a low-cost exit from a market (Williamson, 1985). Thus, firms tend to avoid ownership under such circumstances. Unlike contractual risks resulting from the exposure of transaction-specific assets, that might be neutralized or mitigated by internalization of intermediate markets (Dunning, 1980), risks and uncertainty embodied in the contextual environment are usually afar the control of the firm (Dunning, 1988; Root, 1994). This also reasons the firm to shun from ownership. When operating in a foreign location, investment in assets which cannot be redeployed is inevitable. When a host environment becomes risky, foreign investors are less likely to invest in such assets (Shan, 1991). Thus:

Hypothesis 3: In an emerging economy, *EU* as perceived by construction firms will impact on their entry mode.

According to Smilor (1997) and Kilby (1971) *ESs* refer to those activities, or practical know-how, that is needed to establish and successfully run a business enterprise. These may comprise such areas finance, accounting, marketing or production. *ESs* affect the businesses. *ES* contains: (1) Personal skills (innovation, initiative, risk-taking, ability to deal with the unknown with ease, accepting challenges, taking responsibility; and seeking opportunities in change, (2) interpersonal skills (interacting with others effectively, communicating effectively, negotiating, influencing and demonstrating leadership), (3) process skills (ability to plan and

organize, ability to analyze synthesize and evaluate and ability to execute the plan) (Pyysiäinen et al., 2006). Ekeledo and Sivakumar (2004) stated that entry mode can be affected by *ES*. However, the researcher couldn't find any study that examine the impact of *ES* on entry mode of firms.

Hypothesis 3: In an emerging economy, *ES* will impact on entry mode and would moderate the relationship between *CSFs* and entry mode.

3. THEORETICAL FOUNDATION

This study creates a ranked listing of the most commonly used theories and constructs in entry mode research. In recent years, Dunning's OLI paradigm, paradigm transaction cost theory, bargaining power theory, and the organizational capability have emerged as the leading theories for explaining choices of entry mode during international expansion.

In current study the entry mode is dependent while *CSF* and *ES* are independent variable.

4. DATA COLLECTION

Malaysian construction firms are not formally registered' owing to this the population is unknown. Thus, the population selected is from a sampling frame based on the CIDB Malaysia record (2015) grouped under "global players" for those construction firms that have undertaken and completed projects in the international markets. There are less than two hundred Malaysian construction firms registered as Class A and Grade 7 with CIDB Malaysia used in this study as the target population. This study utilized the random sampling technique and used sample size was based on the criteria suggested by Roscoe's rule of thumb (Sekaran, 2003) 119 questionnaire were distributed, the response rate was 53%.

5. MEASUREMENT OF VARIABLES

This study used three types of entry mode; firms that chose EQ modes only, firms that chose NEQ modes only and firms that chose both EQ and NEQ modes (BOTH). *CSFs* include: *GI*, *PRS* and *EU*. The questionnaire were adapted from the studies of Luo (2006) and Pyysiäinen et al. (2006). The specific factors will be measured by the sum of *GI*, *PRS* and *EU* (Figure 1).

6. ECONOMETRIC MODEL

The dependent variable entry mode is nominal and has three categories so, this study applies multinomial $\log_{it}$ model to analyze the hypothesis [12] also used the same model to examine the impact of different factors on entry mode. Hence, the econometric model of this study is as follows:

$$EM = \beta_0 + \beta_1 GI_i + \beta_2 PRS_i + \beta_3 EU_i + \beta_4 ES + \beta_5 CSF\ (CSF{*}ES)_i + e_i \ldots \quad (1)$$

$$WS: Pr\ (y = j \mid x_i = \frac{\mathrm{Exp}(\beta_{0,j} + \beta_{1,j}x_{i1} + \beta_{2,j}x_{i2} + \beta_{3,j}x_{i3} + \beta_{4,j}x_{i4} + \beta_{5,j}x_{i5})}{\sum_{j=1}^{4}\exp(\beta_{0,j} + \beta_{1,j}x_{i1} + \beta_{2,j}x_{i2} + \beta_{3,j}x_{i3} + \beta_{4,j}x_{i4} + \beta_{5,j})} \quad (2)$$

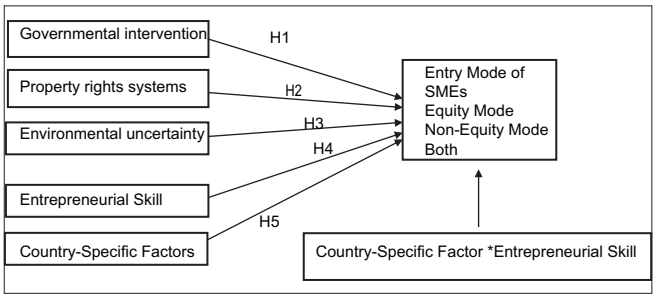
Where, *EM* is entry mode of construction companies, *GI* is government intervention, *PRS* is property rights system, *EU* is the environmental uncertainty, *CSF* country-specific factors and ES is the entrepreneurial skill. Where, ×, $\beta = \times_i$, are vector of characteristics specific to the j^{th} individual, and β_j is a vector of coefficients respectively. The multinomial $\log_{it}$ model shows each response probabilities once we know the probabilities for $j = 0 \ldots j$.

54% firms are using EQ, 9% are using NE and 36% are using both mode. 62% construction firms have internationalized in the ASEAN while 27% were doing businesses in the South Asia and the rest were doing business in other regions.

7. RESULT AND DISCUSSION

Table 1 shows that overall the model is statistically significant as the P > Chi-square = 0.0000. This study found that the NEQ compare to EQ is statistically insignificant while BOTH (EQ and NEQ) compare to EQ is statistically negative insignificant which shows that, entry mode will negatively significant. During the formation of subsidiary, if the intervention of government of Malaysian is perceived discouraging the entry of construction firms will decrease especially when the firms will realize that *GI* is making them difficult to achieve their assignments and plan, and forcing them to act in a way which does not fit the preferred course of action of their firm. The prosperity right system is

Figure 1: Framework of the study



Source: Author

Table 1: Results of multinomial $\log_{it}$ estimation

Model 1	NEQ relative to EQ		Both relative to EQ	
	Coefficient	Standard error	Coefficient	Standard error
GI	0.2676	0.598	−0.602**	0.263
PRS	−0.2541	0.686	−0.548*	0.333
EU	−0.780*	0.776	−0.194*	0.459
ES	4.62**	2.397	3.55**	1.616
CFS	−5.47**	2.66	−4.73**	2.076
*ES*CSF*	1.47**	0.678	1.208**	0.518

P>Chi-square=0.000, log likelihood=−618.091, Pseudo R^2=0.2133. Note: ***,** and * Denote that the corresponding coefficient is significant at the 1%, 5% and 10% level, respectively. This study considers significant value from 1 to 10 percent. No ability is the base outcome. GI: Government intervention, CSF: Country-specific factors, ES: Entrepreneurial skill, EU: Environmental uncertainty, PRS: Property rights system, EQ: Equity, NEQ: Non-equity

significant in both cases (BOTH and NEQ compare to EQ). The *EU* is statistically negative significant which can be explained as follows, if the construction firms perceive that the political, socio-culture and legal system of Malaysia is not supportive the firm will avoid entering in the emerging economy of Malaysia. Furthermore, the country specific in the both cases (BOTH and NEQ compare to EQ) is negatively significant which shows that construction firms avoid entering in Malaysia if they perceive that the *CSFs* are not in their support. The findings of this study are consistent with (Luo, 2001; Isa, 2014a).

The *ES* in the both cases (BOTH and NEQ compare to EQ) is significant which shows that if the construction firms personal skill (innovation, initiative, risk-taking, ability to deal with the unknown with ease, accepting challenges, taking responsibility; and seeking opportunities in change). Interpersonal skills (interacting with others effectively, communicating effectively, negotiating, influencing and demonstrating leadership) and process skills (ability to plan and organize, ability to analyze synthesize and evaluate and ability to execute the plan) the firms the firm is believes on their success because of their *ES.* So, they will enter in Malaysia to do their business. The coefficient of the interaction term between *ES* and *CSFs* is significant, indicating that the effect of *CSFs* and *ES* on entry mode of construction firms depends on the level of *ES*. The finding of the study is consistent with the previous study (Pyysiäinen et al., 2006).

Marginal effects are used to show the probabilities of choice and rate of increase/decrease. It is thus important to examine or predict all outcomes, the marginal change in all outcomes. For example, using the predictors of x_1, x_2, x_3 (the predictors) and $P_r(y = 2)$: P_r $(y = 1)$, $P_r(y = 3)$: P_r $(y = 1)$, always referring the base category, $y = 1$. Marginal effects in multinomial $\log_{it}$ (MNL) analysis can be performed to measure firstly the effect of change as a result of a unit change: $\frac{\partial p_{ij}}{\partial x_i} = p_{ij}(\beta_j - \hat{\beta}_i)$. Where the estimated $\hat{\beta}_i = \sum_l p_{il}\beta_l$ is the probability of weighted average of β_l and the marginal effects vary with the point of computation of any one predictor because p_{ij} varies with the predictor (x_i), the marginal effect is positive if $\beta_j > \hat{\beta}_i$.

The marginal effect of *GI* on the probability of EQ and BOTH to enter in the emerging economy of Malaysia is significant. In particular, if a *GI* is not supportive the probability EQ and BOTH is expected to fall by 1.3% and 1.5%, respectively. The probability of BOTH (EQ and NEQ) to enter in the emerging economy of Malaysia is expected to fall 1.3 if *PRS* are not in favor while the probability of EQ in the emerging economy of Malaysia is expected to fall 1.2 if the construction firms perceive *PRS* are not in favor of their firms. The marginal effect of ES on the probability of EQ and BOTH to enter in the emerging economy of Malaysia is significant. In particular, if a firm has *ESs* the probability EQ and Both is expected to rise by 1.2% and 1.0%, respectively. The marginal effect of the overall *CSF* on the probability of EQ, NEQ and BOTH to enter in the emerging economy of Malaysia are significant. In particular, if a firm perceives that *CSFs* are not in their favor, the probability EQ, NEQ and Both is expected to fall by 9%, 1% and 7%, respectively (Table 2).

Table 2: Marginal effect of the MNLM

Variable	EQ	NEQ	Both
GI	−0.131** (0.039)	0.022 (0.301)	−0.1540** (0.015)
PRS	0.130 (0.113)	0.000 (0.998)	−0.130** (0.097)
EU	−0.061** (0.012)	−0.028 (0.359)	−0.0330 (0.762)
ES	1.200** (0.019)	0.135 (0.212)	1.064** (0.028)
CSF	−0.912** (0.023)	−0.123* (0.184)	−0.789** (0.036)

Note: ***** and * Denote that the corresponding coefficient is significant at the 1%, 5% and 10% level, respectively. This study consider significant value from 1 to 10 percent. The figures in parenthesis are P values. No ability is the base outcome. GI: Government intervention, CSF: Country-specific factors, ES: Entrepreneurial skill, EU: Environmental uncertainty, PRS: Property rights system, EQ: Equity, NEQ: Non-equity

8. CONCLUSION

This study argues that entry mode selection of construction firms is contingent upon *CSFs* and *ESs*. This paper seeks to identify the entry modes preferred by construction firms in Malaysia, on whether they choose the EQ mode, NEQ modes or both modes (BOTH) for their international projects. The cross-sectional data was collected by distributing one hundred nineteen questionnaires; the response rate was 53%. This study found 54% of construction firms choose EQ, 36% choose BOTH (EQ and NEQ) mode while 9% chose NEQ mode. By applying multinomial $\log_{it}$ model, the major findings of this study imply that the entry mode decision should consider the predictors effects arising from the selected mode. Environmental hazards such as *GI*, *EU*, property rights leakage and *ES* influence entry mode. The significance of these hazards in relation to entry mode suggests that firms are not risk-ignorant when they take the plunge into emerging economies. This study recommends the Malaysian policy makers should increase the *ES* among the firms who are interested in doing international projects for their business survival in the case of worse *CSFs* and to make profit. Conclusively therefore, the study addresses entry mode determinants in an emerging market, indicating a need for more research on this important issue in global management and international business.

REFERENCES

Abdullah, N.A.H., Zain, S. N. M. (2011), The internationalization theory and Malaysian small medium enterprises (SMEs). International Journal of Trade Economics and Finance, 2(4), 318-322.

Batchelder, T.H., Root, S. (1994), Effects of an undergraduate program to integrate academic learning and service: Cognitive, prosocial cognitive, and identity outcomes. Journal of Adolescence, 17(4), 341-355.

Boisot, M., Child, J. (1988), The iron law of fiefs: bureaucratic failure and the problem of governance in the Chinese economic reforms. Administrative Science Quarterly, 33, 507-527.

Chen, C., Messner, J. (2011), Characterizing entry modes for international construction markets: Paving the way to a selection model. Engineering, Construction and Architectural Management, 18(6), 547-567.

Dalgic, T., Bloemen, H. (2015), Internationalization of the Euro food Retail Sector with Special Reference to Foreign Market Entry Modes. In: Proceedings of the 1993 World Marketing Congress. New York: Springer International Publishing. p176-177.

Davidson, W.H., McFetridge, D.G. (1985), Key characteristics in the choice of international technology transfer mode. Journal of International Business Studies, 16(2), 5-21.

Dunning, J.H. (1980), Towards an eclectic theory of international production: Some empirical tests. Journal of international business studies, 11(1), 9-31.

Dunning, J.H. (1988), The eclectic paradigm of international production: A restatement and some possible extensions. Journal of International Business Studies, 19, 1-31.

Ekeledo, I., Sivakumar, K. (2004), International market entry mode strategies of manufacturing firms and service firms: A resource-based perspective. International Marketing Review, 21(1), 68-101.

Gomes-Casseres, B. (1990), Firm ownership presences and host government restrictions: An integrated approach. Journal of International Business Studies, 21(1), 1-21.

Ho Wah Foon. (2015), Budget a Mixed Bag for SMEs. Available from: http://www.thestar.com.my/metro/smebiz/focus/2015/11/02/budget-a-mixed-bag-for-sees/.

Isa, C.M.M., Saman, H.M., Nasir, S.R.M. (2014), Specific-factors influencing market selection decision by Malaysian construction firms into international market. Procedia-Social and Behavioral Sciences, 129, 4-10.

Isa, C.M.M., Saman, H.M., Nasir, S.R.M., Preece, C.N. (2014), International market entry mode choices by Malaysian construction firms using multinomial regression model. Journal of International Business Studies, 111(2), 3-321.

Khan, R.A., Liew, M.S., Ghazali, Z.B. (2014), Malaysian construction sector and Malaysia vision 2020: Developed nation status. Procedia-Social and Behavioral Sciences, 109, 507-513.

Kilby, P. (1971), Hunting the heffalump. Entrepreneurship and Economic Development. New York: Free Press. p1-40.

Luo, X. (2006), Corporate social responsibility, customer satisfaction, and market value. Journal of Marketing, 70(4), 1-18.

Luo, Y. (2001), Determinants of entry in an emerging economy: A multilevel approach. Journal of Management Studies, 38(3), 443-472.

Peng, M. W. (2000), Business Strategies in Transition Economies. Thousand Oaks, CA: Academy of Management Review, Sage 21, 492–528.

Pyysiäinen, J., Anderson, A., McElwee, G., Vesala, K. (2006), Developing the entrepreneurial skills of farmers: some myths explored. International Journal of Entrepreneurial Behavior & Research, 12(1), 21-39.

Shan, W. (1991), Environmental risks and joint venture sharing arrangements. Journal of International Business Studies, 22, 555-578.

Smilor, R.W. (1997), Entrepreneurship: Reflections on a subversive activity. Journal of Business Venturing, 12(5), 341-346.

Sukeran, U.S. (2003), Research Methods for Business: A Skill Building Approach. United States: John Wiley & Sons, Inc.

Wang, Y., Larimo, J. (2015), Subsidiary survival of multinational enterprises in China: An analysis of Nordic firms. In: The Rise of Multinationals from Emerging Economies.UK: Palgrave Macmillan. p135-158.

Williamson, O.E. (1985), The Economic Institutions of Capitalism. New York: The Free Press.

Yasmeen, K., Karim, M.Z.A. (2014), The impact of demographic and loan size on the probabilities of women freedom of movement empowerment. International Journal of Accounting and Financial Reporting, 4(2), 361-376.