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Carleton University - School of Business

**The Influence of Host Country
Characteristics on Method of Entry**

By

Derek Jansen B. Comm.

**A thesis submitted to
the Faculty of Graduate Studies and Research
in partial fulfilment of the requirements
for a Masters in Management Studies**

**Carleton University
Ottawa, Ontario
December 3, 1992**

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**The undersigned recommend to the Faculty of Graduate Studies
and Research acceptance of the thesis**

**The Influence of Host Country Characteristics
on Method of Entry**

**submitted by Derek Jansen, B. Comm.
in partial fulfillment of the requirement for
the degree of Master of Management Studies**

Thesis Supervisor

Chair, School of Business

Carleton University

December 3, 1992

Abstract

This thesis examines the relationship between the environmental characteristics of foreign markets and the methods of operation of large Canadian firms in penetrating those markets. In order to examine this relationship, the research replicated a study conducted in the U.S. about 20 years ago. The present research consisted of using cluster analysis to group 48 countries according to their environmental attractiveness and then surveying 500 large Canadian-based firms to determine their methods of operation in these markets. While there was some variation between the results of this research and those of the previous study, overall the data support the hypothesis of greater resource commitment to the marketing channel as a country's environment becomes more attractive. Furthermore, this research will discuss the results with respect to firm size and how cluster membership affects the number of entries into each of the countries under study.

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Table of Contents

Acceptance Sheet	ii
Abstract	iii
Acknowledgements	iv
Table of Contents	v
List of Tables	vii
List of Exhibits	viii
List of Appendices	ix
Chapter 1: Introduction	1
Chapter 2: Literature Review	4
2.1 Factors Affecting Entry Mode Decisions	4
2.2 Primary Characteristic Research	6
2.3 Classification Schemata	9
2.3.1 Risk Analysis	10
2.3.2 Global Screening and International Market Selection (IMS)	12
2.4 Entry Strategies	19
2.5 Conclusion	24
Chapter 3: Statement of the Research Problem	26
Chapter 4: Research Methodology	27
4.1 Temperature Gradient Model	27
4.1.1 Indicator Selection	27
4.1.2 Country Selection	30
4.1.3 Indicator and Country Modification	32
4.1.4 Data Analysis	33
4.2 The Survey of Firms	34
4.2.1 Population	35
4.2.2 Sampling Frame	35
4.2.3 Sampling Unit	35
4.2.4 Sampling Element	35
4.2.5 Sample Selection	35

Table of Contents (Continued)

4.2.6	Choice of Sampling Element	39
4.2.7	Survey Instrument Design and Content	40
4.2.8	Survey Implementation	46
4.3	Relating Cluster Analysis to the Survey	46
4.3.1	Data Structure and Error Check	46
4.3.2	Data Analysis	47
4.4	Conclusion	49
Chapter 5:	Findings and Discussion	51
5.1	Temperature Gradient Model	51
5.1.1	Cluster Solution	51
5.1.2	Cluster Profiles	54
5.1.3	Country Placement	60
5.1.4	Conclusion	65
5.2	Results of the Survey	66
5.2.1	Survey Responses	66
5.2.2	Sample Profile	68
5.3	Relating Cluster Analysis to the Survey	71
5.3.1	Overall Results	71
5.3.2	Demographics	76
5.3.3	Individual Countries	82
5.3.4	Conclusion	85
Chapter 6:	Limitations of the Research	87
Chapter 7:	Implications of the Research	90
7.1	Temperature Gradient Model	90
7.1.1	IMS Process	90
7.1.2	Multinational Standardization	92
7.1.3	Political Risk Analysis	93
7.2	Survey of Firms	94
7.3	Relating Cluster Analysis to the Survey	96
7.4	Replication Logic	99
References		100

List of Tables

Description	Page
Table 1 Indicators and Indicator Sources	29-30
Table 2 Number of Entries in Each Cluster	48
Table 3 Cluster Profiles	55-57
Table 4 Summary of Survey Responses	67
Table 5 Sample Profile	68
Table 6 Percentage Distribution of Market Entry Strategies by Country Cluster	72
Table 7 Percentage Distribution of Market Entry Strategies by Country Cluster (Goodnow and Hansz results)	74
Table 8 Percentage Distribution of Market Entry Strategies by Country Cluster (Total Sales: \$0-260mln; n=28)	77
Table 9 Percentage Distribution of Market Entry Strategies by Country Cluster (Total Sales: \$261-700mln; n=32)	78
Table 10 Percentage Distribution of Market Entry Strategies by Country Cluster (Total Sales: \$701mln+; n=32)	79
Table 11 Cluster Membership Ranked by the Number of Firms Entering Countries	83-84

List of Exhibits

Description		Page
Exhibit 1	Country Sample	31
Exhibit 2	Comparison of Country Placement	61

List of Appendices

Description

Appendix 1	Data Results for Country Indicators
Appendix 2	Industry Sectors
Appendix 3	Survey Instrument
Appendix 4	Letters
Appendix 5	Clusters
Appendix 6	External Variables
Appendix 7	Percentage Distribution of Market Entry Strategies by Country Cluster (Secondary Sample Firms; n=20)
Appendix 8	Entry Strategies into Individual Countries

1. INTRODUCTION

International trade is crucial to Canada's economic well-being: foreign trade accounts for three million jobs and one third of all of Canada's production (External Affairs, 1989). The 1990s will offer Canada significant opportunity to increase its trade and prosperity. The creation of regional trading blocs such as the Canada/U.S. Free Trade Agreement and the European Community in 1992 are expected to increase world trade (Rugman, 1988). Furthermore, new markets in Eastern Europe and the Soviet Union are emerging; and the thrust of current GATT (General Agreement on Trade and Tariffs) negotiations is to continue to decrease barriers to trade among all nations (Peapples, 1990). However, Canada's ability to take advantage of these opportunities is being questioned. A recent article in *Business Quarterly* has stated that:

Larger, freer markets are only a benefit to Canadian business if it can effectively compete in them. Businesses that maintain only a local, regional or even national outlook are facing danger because foreign competition will certainly be targeting our domestic markets. Every company - large and small - must manage its operation with a view that it can compete anywhere in the world. (Peapples, 1990; p. 81).

The method of operation used by firms to penetrate foreign markets is an important aspect of any firm's ability to compete successfully in these markets. It has been suggested that target country environmental factors (the economic,

political and socio-cultural characteristics of a foreign market) can have a decisive influence on the choice of entry mode (Root, 1987).

In 1968, two Canadian researchers, Isaiah Litvak and Peter Banting, were among the first to propose a systematic conceptual approach for assessing the suitability of foreign country environments for various entry modes by international firms. Their approach, called the "temperature gradient" model, classifies countries into hot, moderate, and cold categories based on a variety of environmental characteristics. Two American researchers, James Goodnow and James Hansz, subsequently refined and operationalized the Litvak-Banting approach and applied it in the U.S. about 20 years ago (1972). The purpose of the present study was to examine empirically how the contemporary environments of foreign markets may be related to the entry strategies of large multinational firms by conducting a modified replication of the approach developed by Goodnow and Hansz. The modifications/improvements of this research over the original study will be discussed in the research methodology section. The present research was the first replication since the original study and the first time the concepts were applied in Canada.

The research consisted of three major steps:

- (1) Selected countries were classified into various groups according to their environmental market attractiveness. The classification was done statistically by cluster analysis.
- (2) The largest and most experienced firms in Canada were surveyed to determine what entry strategies they have used to penetrate the foreign markets under investigation.
- (3) The results from (1) and (2) were compared to determine what market penetration strategies are used by these firms for target countries in each of the clusters.

This research is important for a variety of reasons. The results enable large firms to compare their entry strategies with their counterparts, and provide guidance to small and medium-sized firms in selecting entry methods for foreign markets. The cluster analysis helps firms select foreign markets as it objectively classifies countries according to their environmental market attractiveness. The research also replicates an American study in a Canadian context and helps to examine if the Goodnow and Hansz results are still valid.

This thesis will examine first the relevant literature on entry strategies available to firms and literature on country environmental data. It will then present the research problem in the form of one main hypothesis, methodology used to test the hypothesis and discuss the findings from the research. The final chapters of this study expand on limitations and implications of the research.

2. LITERATURE REVIEW

2.1 Factors Affecting Entry Mode Decision

Once a company has decided to go international or expand its share of world markets, it must decide on a strategy to penetrate those markets. There are a variety of entry strategies described in the literature. However the various methods can be grouped into three broad categories (Root, 1987):

Export Entry Modes

- Indirect
- Direct agent/distributor
- Direct branch/subsidiary
- Other

Contractual Entry Modes

- Licensing
- Franchising
- Technical agreements
- Management contracts
- Other

Investment Entry Modes

- Sole venture: new establishment
- Sole venture: acquisition
- Joint venture: new establishment/acquisition
- Other

These modes will be defined with reference to how choice is influenced by environmental characteristics in Section 2.4.

A company's choice of entry strategy is the result of several, often conflicting, forces (Root, 1987). These forces can be divided into internal and external factors.

Internal factors refer to product characteristics and the resources available to the firm. Highly differentiated products give sellers a significant degree of pricing discretion, thus product differentiation favours export as an entry mode, as the goods can absorb transportation costs and import duties. In contrast, weakly differentiated products must compete on a price basis in a target market and this may be possible only through some form of local production (Root, 1987). Furthermore, the more abundant a company's resources in management, capital technology, etc., are, the more numerous its entry mode options will be - small firms, for example, may be unable to invest in a target country.

External factors refer to the target country's market and production considerations, the home country environment, and the environmental characteristics of the target market. Market factors refer to the size and competitive structure of a market -e.g., large markets with an oligopolistic structure usually favour equity investment to compete against the power of the dominant firms. Production factors refer to the quality, quantity and cost of raw materials, labour, energy, etc. - e.g., low production costs in a target country encourage local production. Home country factors also influence a company's choice of entry mode. For example, a large domestic market allows a company to grow before it expands to foreign markets, and large firms are more inclined to use equity methods than smaller firms (Root, 1987). Finally, environmental

factors such as a target country's political, economic and socio-cultural characteristics can influence decisively the choice of entry method.

In light of the study's objectives, this thesis focuses on the latter set of factors - the impact of external environmental forces on the entry mode decision. The literature in this area can be divided between research that attempts to identify specific environmental characteristics (i.e., political, economic or sociocultural) as being the primary determinants of entry and market selection, and classification schemata which incorporate all three types of environmental factors into their analysis.

2.2 Primary Characteristic Research

Green and Cunningham (1975) used nine independent variables to determine factors that U.S. foreign investors consider important in deciding upon an investment site:

- (1) Market potential
- (2) Political stability
- (3) Cultural differences
- (4) Government attitudes toward investment
- (5) Geographic proximity to the U.S.
- (6) Economic infrastructure
- (7) Availability of management
- (8) Exchange rate stability
- (9) Expected profitability

The researchers' findings suggested that measures of market potential and expected profitability were the most significant indicators of country selection.

None of the other factors related significantly to investment decisions. Green and Cunningham's (1975) conclusion was that although foreign investors claim to consider several factors in deciding which target countries to penetrate, they primarily use economic indicators. A study by Levis (1979), however, was critical of these findings due to a possible bias in the sample. The Green and Cunningham study included both developed and developing nations, however it did not discriminate between these countries. Therefore, while the overall results indicated that economic variables were the most significant indicators of country selection, the inclusion of the developed countries (which are generally perceived to be politically stable) may have masked an otherwise existing relationship between political instability and foreign investment in the developing countries.

Methodological problems aside, other researchers have reached conclusions which are in direct conflict with Green and Cunningham. A study by Akaah and Yaprak (1988) suggested that political factors were rated as more important than economic factors. Using focus group interviews and the existing literature, the researchers identified country attributes that investing firms consider important in making direct investment decisions. They then reduced the number of attributes to a manageable size and these attributes were used to construct profiles of country benefits. These profiles were then presented to executives for their evaluation. Six attributes were chosen for the study:

- (1) Maximum foreign equity allowed
- (2) Dividend/income repatriation
- (3) Tax incentives provided
- (4) Extent of political stability
- (5) Protection against nationalism
- (6) Annual inflation rate

The results indicated that political stability rated highest in importance followed by foreign equity allowed and protection against nationalism. All three measures are indicators of political risk. Thus this study concluded that political risk attributes were powerful determinants in foreign direct investment decisions. However these results are open to criticism as the executives surveyed worked in a politically unstable country (Ghana) and this may account for the high rating given to political stability measures.

Other studies have pointed to cultural factors as the prime determinants of entry mode selection. Davidson (1980) examined the Harvard Multinational Enterprise Project (a data bank which is based on a survey of the foreign operations of 180 large U.S. multinational corporations) in order to determine the location of the foreign direct investment of these firms. He found that Canada and the U.K. accounted for a disproportionate share of the investment. The level of investment in these countries exceeded any estimate that could be derived from an analysis of their market size and growth. Investment activity in these nations increased relative to other nations between 1956 and 1975; however Canada and the U.K. did not exhibit significant economic growth relative to other nations

during this period, nor did the investment climate in either country improve. Davidson concluded that investment in Canada and the U.K. increased because of market and cultural similarities between these countries and the U.S.. Davidson further stated that as firms become more familiar with culturally dissimilar markets, investment in these countries will increase. Thus Davidson suggested that socio-cultural distance can influence greatly the entry strategies of firms.

Therefore, studies suggesting that one set of country characteristics (economic, political or cultural) primarily influence firms' entry strategy have reached conflicting conclusions. An alternative method for analyzing country characteristics is a classification schema which clusters countries on the basis of a combination of environmental factors.

2.3 Classification Schemata

The environmental scanning literature has influenced a variety of areas of international business. Risk analysis, the market selection process, as well as entry strategy decisions are all affected by the environment of a target country. Classification schemata have been developed in these areas in an attempt to help firms analyze environmental factors. This section will review these schemata as they relate to different areas of international business.

2.3.1 Risk Analysis

There are numerous risk assessment models available in the literature. Dichtl and Koglmayr (1987) provide an overview of some typical methods such as the Business Environmental Risk Index and Business International Country Ratings. These models are based on the analysis of economic, social, cultural and political characteristics of a specific country, using either forecasts rooted in statistical data or evaluations done by expert panels.

Other risk assessment models have focused on the political stability of foreign markets. Eiteman and Stonehill (1983) identified several comparative approaches for analyzing political risk. The Knudsen (1974) Ecological Approach used discriminant analysis to test the hypothesis that high levels of national frustration combined with a high foreign investment presence will result in a propensity to expropriate. The level of national frustration was measured by "aspirations minus welfare divided by expectations". National aspirations were represented by proxy variables such as literacy rate and the number of radios in use; welfare was measured by infant survival rate and the number of doctors per population size; and national expectations were measured by the percentage change in per capita gross national product. A major problem with this ecological approach is that Knudsen was measuring abstract concepts such as "aspirations" and "expectations" with quantitative measures without explaining how the

measures reflect these concepts. For instance, it was not made clear how radio ownership or literacy could measure aspirations.

A more rigorous method for analyzing risk was developed by Haendel, West, and Meadow (1975). These researchers identified and measured the components of political risk and then aggregated these measures into an overall index. The measures included socio-economic characteristics such as ethnolinguistic fractionalization; societal conflict factors such as riots and armed attacks; and governmental processes such as legislative effectiveness.

In general, however, political risk analysis originally attracted the interest of researchers because of its significance in relation to foreign direct investment decisions, and the volatility of the international environment in the early years of business internationalization. During these years, expropriation and other costly political risks were more likely threats than today. Thus while the above studies are conceptually interesting, they primarily assume direct investment as the entry mode and none specifically examine how the risk of a foreign market affects the overall choice of entry strategy for penetrating markets in the first place. A review of the global screening and international market selection literature, which generally does not pre-suppose a given method of entry, was therefore conducted.

2.3.2 Global Screening and International Market Selection (IMS)

Numerous models for evaluating foreign markets have been suggested in the international marketing literature. Interest in this area is due in large part to the complexity and importance of the subject. Douglas and Craig (1983) have stated that:

A major problem in the initial stages of international market entry is the bewildering array of countries and markets that could be entered. Since it is clearly prohibitive to examine all possible countries and markets, an initial screening procedure to determine which countries to investigate in-depth is required (Douglas and Craig 1983; p. 105).

Over the past three decades a variety of screening procedures have been developed. Russow (1989) provides an in-depth review of the early studies in global screening. In 1964 Kramer suggested dividing the task of evaluating a market into four parts: general environmental characteristics, general product related factors (e.g. trade and exchange policies), specific product related factors, and business operations factors (e.g. competitive environment). In 1967, Robinson suggested a six step process that required determining progressively more specific levels of demand for a particular company's product for each country under investigation. In the same year, Deschampsneufs (1967) suggested three stages in the market selection process:

- 1) Consider world markets in general using measures such as market size and population**
- 2) Evaluate markets in terms of general product related factors such as consumer trends**

- 3) **Assess markets in terms of company-specific, product-related factors.**

Wind and Douglas (1972) recommended a two stage screening process aimed at segmenting international market opportunities. An initial screen identifies potentially attractive countries on the basis of market characteristics and political constraints. Further screening groups the countries according to specific customer characteristics.

More recent screening methods include Cavusgil's (1985) model for the systematic analysis of foreign market opportunities. The model consists of three stages which correspond closely to the Deschampsneufs approach:

- 1) **Preliminary screening to select the more attractive markets to investigate in detail**
- 2) **Assessment of industry market potential**
- 3) **Company sales potential analysis.**

Leontiades (1988) applied portfolio screening as developed in the corporate strategy literature to the problem of international site location. The author claims this is a superior approach as it views the firm's location options as part of a broader strategy, by not only considering the general attractiveness of a market but also the ability of the company to compete there successfully.

Many Canadian researchers have also contributed significantly to the IMS literature. Papadopoulos (1987) outlined a decision making approach to IMS for small and medium-sized enterprises (SMEs). This framework builds upon the strengths and weaknesses of these companies and consisted of establishing company objectives and strategies for IMS, identifying the main selection criterion for developing a target market shortlist and then systematically screening these markets.

Beliveau (1987) developed a method for government agencies to help firms export to foreign markets. The model consists of collecting import data for the country of interest to determine the degree of market opportunity in that country. It then identifies domestic firms or industries that are potentially good candidates to engage successfully in foreign trade. Finally, these domestic exporters are matched with the foreign market opportunities and appropriate market penetration strategies are developed.

Sheridan (1988) narrowed his focus to advanced technology SMEs to determine whether these firms were more systematic in their approach to IMS than other SMES. The results of his study indicated that IMS decisions in technology-intensive firms are similar to the internationalization decisions found in non technology firms; that is, most smaller firms tend to decide which international market to enter in an intuitive manner, most often as a response to

an unsolicited order (Bilkey, 1978). These findings reinforce the need for the development of systematic models as described above.

Papadopoulos and Denis (1988) integrated the various approaches to market selection by dividing them into two general types: qualitative and quantitative. Qualitative approaches include the judgement of decision makers and sources such as banks, government agencies and international experts. Quantitative approaches use formalized statistical analyses to screen markets. These quantitative procedures are thought to be superior as they are based on objective criteria as opposed to the subjective judgement of the qualitative approach.

However, all of the above studies focused on the entire set of variables which influence a firm's choice of market and entry strategy. For instance, Leontiades' (1988) screening scale included not only environmental characteristics such as political stability and GNP, but also competitor concentration, labour costs and industrial relations. The present research investigates a more specific set of criteria - how the political, cultural and economic environment influences entry strategies.

The pioneering quantitative study which focused on these environmental factors was developed by Liander et al. (1967). These researchers suggested three

approaches to assessing countries for IMS. The Developmental Approach employed cluster analysis to group countries into five levels of economic development (from highly developed to very underdeveloped) based on twelve environmental and societal factors relevant to marketing. The Regional Typological Approach separated countries into five major world regions, assigned a value score for each of 25 indicators for each country, and grouped the countries according to relative levels of development within regions. Lastly, the Two Dimensional Approach ranked countries based on two dimensions: their degree of economic and social advancement, and their internal stability and cohesion. These three approaches were developed in order to help firms select a target country by comparing the marketing systems of countries at different stages of their development. This study has been criticized by several reviewers (Sethi and Holton, 1969; Sethi, 1971) on the basis of methodological flaws in the analysis; however it has also been acknowledged as a pioneering contribution to the literature (Sethi, 1971; Papadopoulos and Denis, 1988).

Another early systematic approach to environmental scanning which has been widely acclaimed is the temperature gradient model of Litvak and Banting, which forms the conceptual foundation of this proposal. While the initial intent in putting forth this model was to explain how a country's environment can push an international agent towards new institutional structures (e.g., a merchant wholesaler), Litvak and Banting pointed out that it can also be used to explain,

and provide guidance to firms in, market selection and entry decisions. Indeed, their approach has been adapted to study these and other marketing channel phenomena (Goodnow and Hansz, 1972; Sheth and Lutz, 1973; MacLayton, Smith and Hair, 1980). The temperature gradient model consists of grouping countries into three clusters (hot, moderate and cold) based on the following seven environmental dimensions:

- (1) Political stability
- (2) Market opportunity
- (3) Economic development and performance
- (4) Cultural unity
- (5) Legal barriers
- (6) Physiographic barriers
- (7) Geocultural distance

"Hot" countries are defined as being high in political stability, market opportunity, economic development and cultural unity; and low in legal barriers, physiographic barriers and geocultural distance.

Since the Liander et al. (1967) and Litvak and Banting (1968) studies, numerous other environmental classification schemata have been developed in the literature. Sheth and Lutz (1973) attempted to operationalize the Litvak-Banting framework by clustering 80 countries on the hot-cold gradient from the point of view of U.S. corporate foreign investment. Another schema was developed by Sethi (1971), who grouped 29 environmental factors into four clusters and then grouped 91 countries into seven country clusters based on these factors. A study

by Johansson and Moinpour (1977) classified countries within the Pacific Rim based on 29 economic, social and political variables. They then compared this objective data with the perceptions of bankers, academicians and students towards the Pacific Rim to determine if any discrepancies existed between the "hard facts" of the classification schema and the subjective opinions of people knowledgeable about the Pacific. MacLayton, Smith and Hair (1980) explored the extent to which environmental factors are considered in the foreign market analyses of U.S. based health care companies. This study used the Litvak-Banting typology to identify five environmental factors which these firms perceived as relevant in evaluating foreign markets. However, in spite of the variety of schemata available, very little research has attempted to verify empirically the influence of these environmental factors on a firm's entry selection into a foreign market.

The study by Goodnow and Hansz (1972) is an exception to this rule. These researchers compared 100 countries on the basis of 59 characteristics representing each of the seven categories suggested by Litvak and Banting (1968). They then grouped these countries into hot, moderate or cold categories based on these environmental factors. For example, one characteristic within the political stability dimension was whether a country had experienced major wars or revolutions. None of the hot countries had had such experiences, whereas six percent of the moderate and 26 percent of the cold countries did. Once the various countries were classified, the researchers sent questionnaires to the

directors of international divisions of America's largest corporations as identified by Fortune magazine ("Top 500" and "Next 250"). The purpose of the survey was to identify the type of entry strategy used by these firms for each of the 100 countries under investigation. Goodnow and Hansz hypothesized that firms were more likely to pursue an entry strategy involving greater control over, and greater investment in, marketing channels, as the countries became "hotter". The company responses supported their hypothesis. They found that the percent of firms having plants in the typical country in each cluster declined as one moved from "hot" to "cold" countries; and that as the countries became colder, firms were more likely to export than invest when entering these markets.

Thus Goodnow and Hansz operationalized the hot-cold classification schema of Litvak and Banting and empirically investigated the relationship between country characteristics and the entry strategies of multinational corporations (MNCs).

2.4 Entry Strategies

This section defines each of the entry modes listed in the first section of the literature review, with reference to the effect of environmental factors on the choice of entry mode. Examples are used to illustrate the influence of specific environmental factors on various entry strategies.

Export Entry Modes

Export entry modes can be divided into direct and indirect methods.

Indirect exporting can take many forms. Firms may export through trading companies - which act as merchant wholesalers or agents and offer a variety of services for exporting the firm's goods abroad (Kırpalani, 1985). Other methods include engaging an export management company or having another company market the product through their overseas marketing channels. Firms that choose indirect exporting generally have little knowledge of doing business abroad and do not wish to commit resources. Therefore, indirect exporting would be the preferred method of entry if the target country was culturally or geographically distant from the home country. As previously mentioned, Davidson (1980) claimed that cultural similarity encourages direct investment, due to the efficiency of information transfer and lower levels of uncertainty; conversely, therefore, cultural distance would discourage direct investment and encourage the use of less resource commitment methods such as indirect exporting. Another country characteristic that encourages the use of indirect exporting is economic and political instability in the target country, since exporting lessens the risk attached to foreign market entry.

Direct exporting usually involves one of two channels: the foreign agent/distributor channel or the foreign branch/ subsidiary operation. A foreign agent is an independent intermediary who represents the manufacturer in the

target country; a foreign distributor is an independent merchant who takes title to the manufacturer's goods for resale to other intermediaries and final buyers (Root, 1987). A branch/ subsidiary operation uses the company's sales force and distribution division to market the firm's products and thus requires equity investment in marketing institutions located in the target country (Anderson and Coughlan, 1987). Therefore, direct exporting involves more control over the firm's marketing channel than does indirect exporting. However this greater control also exposes the firm to more risk as more resources are committed to the channel. Thus it may be an appropriate method of entry for countries that are more politically stable as well as countries that are more culturally similar to the home market. Direct exporting would also be the preferred method of entry for countries with low tariffs and for countries that are geographically closer to the home market, as transportation costs may make exporting prohibitively costly in distant markets.

Contractual Entry Modes

Contractual entry modes are long term non-equity associations between an international company and a foreign firm that involve the transfer of technology or human skills (Root, 1987). An example of a contractual entry mode is licensing agreements. Political factors such as government restrictions on foreign direct investment favour the use of licensing to penetrate the market. A related political factor that favours the use of licensing is host country requirements for formal or

informal screening of foreign investments. Screening procedures are not as severe a deterrent to investment as government restrictions, but they often increase the cost of direct investment thus encouraging the use of licensing (Davidson and McFetridge, 1985). Licensing agreements are also the preferred method of entry in less sophisticated and smaller markets due to a preference by these countries for more rudimentary and less costly technologies. Furthermore if the target country has high tariffs or import quotas, licensing will overcome this barrier because the manufacturer is transferring intangible services that are not subject to import restrictions. Political instability in the target country also favours licensing as these agreements are immune to expropriation of tangible assets since these are not owned by the licensor.

There are also other forms of contractual methods of entry such as franchising and management contracts. However, for the purposes of this thesis (which focuses on the influence of environmental characteristics), all forms of contractual agreements are appropriate methods of entry in countries with characteristics similar to those outlined with regards to licensing (i.e., high tariffs, government restrictions, political instability, etc.).

Investment Entry Modes

The third type of entry method available to firms is direct investment in the target country. Direct investment may take the form of a joint venture, a

greenfield investment or an acquisition. Joint ventures are defined as shared-equity undertakings between two or more parties, each of whom holds at least five per cent of the equity (Beamish, 1987). Acquisition refers to the purchase of stock in an already existing company in an amount sufficient to gain control (Kogut and Singh, 1988). Greenfield investments involve the establishment of a new wholly owned subsidiary in the target country.

Joint ventures are the least risky type of direct investment as the local partner can provide capital, knowledge of the host country's environment and business practices, personal contacts with local suppliers and government officials, marketing skills and other resources (Root, 1987). Thus a joint venture would be the preferred method of entry if the firm wished to establish operations in the target country but due to cultural distance or political instability also wished to reduce the risk attached to the investment. However, a study by Beamish (1987) indicated that the major reason firms established joint ventures rather than wholly owned subsidiaries in less developed countries was government suasion or regulations. Thus political pressure within the host country can also lead to joint ventures.

Acquisition and greenfield investments are also strongly influenced by the target country's political characteristics. Host government policies may limit the use of acquisitions as many countries believe that acquisitions do not make much

of a contribution to the economy (Root, 1987). Greenfield investments are also subject to government restrictions, especially in developing countries. Therefore government policies may preclude the use of acquisitions and greenfield investments as a means of penetrating a target country.

However in countries where direct investment is permitted, there are several situations which would encourage its use as a method of entering the foreign market. If the targeted country had high tariffs or was geographically distant, local production might result in lower costs than exporting. If the country lacked indigenous firms to which the MNC could grant a license, this would encourage the establishment of subsidiary operations. If the targeted country had set quota limits on imports, direct investment could overcome this barrier. Finally, direct investment would be the best entry strategy in countries with a large market and a growing economy as subsidiary operations take full advantage of the size and growth potential of markets (Root, 1987).

2.5 Conclusion

A company's choice of entry mode is the result of several forces - product characteristics and the resources available to the firm, as well as market, production and home country factors. However, it has also been suggested that host country characteristics influence greatly a firm's method of entry. This section has reviewed the literature concerning environmental factors and their

effect on market and entry mode selection. While much research exists in these areas, no Canadian study was discovered which specifically deals with the influence of target country factors on entry strategies; in fact the only study which explored this issue was conducted about 20 years ago by two American researchers (Goodnow and Hansz), who clustered countries on the basis of environmental characteristics and surveyed a sample of MNCs to verify empirically the relationships suggested above. Further and more contemporary research of this nature is necessary to provide guidance to firms entering international markets.

3. STATEMENT OF THE RESEARCH PROBLEM

The main hypothesis of the Goodnow and Hansz research, and correspondingly the present study, is a modification from the work of Isaiah Litvak and Peter Banting (1968). The hypothesis examines the relationship between international companies' entry strategies into foreign countries and these countries' position along an environmental "temperature gradient". Although Litvak and Banting's original hypothesis was suggested to explain why international agents evolve into merchant intermediaries, the analytical framework is useful in explaining other international marketing phenomena (Goodnow and Hansz, 1972).

The hypothesis is:

A firm will tend to pursue an entry strategy involving greater control over and investment in marketing channel activities as the country's environment becomes "hotter" according to the Litvak-Banting model.

This research will also discuss the results with respect to firm size. It is expected that larger firms will tend to use more direct methods of entry because their resources allow them to assume the risk of investment in foreign markets. Finally, the research will investigate how cluster membership affects the number of entries into each of the countries under study.

4. RESEARCH METHODOLOGY

The methodology for this research can be divided into two sections: constructing the environmental temperature gradient model of Litvak and Banting; and surveying large Canadian multinational firms to determine their entry strategies into foreign markets.

4.1 Temperature Gradient Model

Countries were classified into clusters using proxy indicators to represent each of the seven environmental factors mentioned earlier.

4.1.1 Indicator Selection

Douglas and Craig (1983) have stated that "Secondary data are a key source of information for conducting international marketing research" (p. 56). Given the multitude of secondary data that is available today, the question is which indicators are the most appropriate for the issue under investigation. Papadopoulos (1983) suggested selecting indicators based on three criteria: relevance, data availability and the extent to which their appropriateness has been demonstrated in the literature. It is recognized that the indicators selected may influence a cluster solution, thus care was taken to ensure that the indicators selected had not only been used by Goodnow and Hansz but also by more contemporary studies (i.e., had demonstrated their usefulness in the literature). These more contemporary studies include Haendel, West and Meadow, 1975;

Johansson and Moinpour, 1977; Maclayton, Smith and Hair, 1980; Papadopoulos, 1983; Root, 1987; Business International, 1989; and World Bank, 1990.

This review of the country indicator literature resulted in 27 indicators being used to classify the countries. For instance, a proxy indicator for market opportunity was GNP per capita; for political stability, the number of riots; and for economic development, steel consumption per capita.

The statistics for these indicators were gathered from United Nations publications, the World Handbook of Social and Political Indicators, Price Waterhouse Information Guides, the World Factbook, the Europa World Yearbook and the PC Globe Software Package. Definitions of the environmental factors, the indicators and the sources for these indicators are given in Table 1 below. The detailed statistics for the indicators are contained in Appendix 1.

Table 1 - Indicators and Indicator Sources

	<u>Sources</u>
A.	United Nations Statistical Yearbook
B.	PC Globe
C.	World Handbook of Political and Social Indicators
D.	Price Waterhouse Information Guides
E.	World Factbook
F.	Europa World Yearbook

The following is a list of indicators which have been used either in the Goodnow and Hansz research or in other studies using proxy variables to represent environmental characteristics (Sethi, 1971; Haendel, West and Meadow, 1975; Johansson and Moinpour, 1977; Macclayton, Smith and Hair, 1980; Papadopoulos, 1983; Root, 1987; Business International, 1989; World Bank, 1990). Definitions for environmental factors as suggested by Goodnow and Hansz (1972).

- 1) **Political Stability** - A system of government which permits representation of its society, enjoys the confidence of its people, generates conditions for continuity of business enterprise and is sympathetic to private enterprise.

Indicators:

- x₁ - Riots - a demonstration or disturbance that becomes violent.^C
- x₂ - Protest demonstrations - a non-violent gathering of people organized for the announced purpose of protesting against a regime or government.^C
- x₃ - Assassinations - a politically motivated murder of a national leader, a high government official, or a politician^C
- x₄ - Years since independence^D

- 2) **Market Opportunity** - A sufficient number of customers with incompletely satisfied needs and the necessary resources with which to satisfy those needs for the product or service in question.

Indicators:

- x₅ - GNP annual growth rate^B
- x₆ - Percent literacy rate^B
- x₇ - GNP/capita (\$U.S.)^B
- x₈ - Radios/1000^A
- x₉ - Newspapers/1000^A (Deleted from analysis due to lack of data); (please see below)
- x₁₀ - Total population^B

- 3) **Economic Development and Performance** - The level of a country's economic growth, efficiency, equity and stability, which shape the environment for private enterprise.

Indicators:

- x₁₁ - Male life expectancy^B
- x₁₂ - Steel consumption/capita (kg)^A
- x₁₃ - Exports as a % of GNP^C
- x₁₄ - Inhabitants per physician^B
- x₁₅ - GNP (millions of \$U.S.)^B

Table 1 (Continued)

-
- 4) **Cultural Unity** - The values, goods, social relationships and interactions within a country's people in terms of shared heritage, unassailed by competing groups.
- Indicators:**
- x_{16} - One religion 75% dominant^B (1=yes; 0=no)
 - x_{17} - One ethnic group 75% dominant^B (1=yes; 0=no)
 - x_{18} - One common language 75% dominant^B (1=yes; 0=no)
- 5) **Legal Barriers** - A proliferation of public measures in the form of laws and regulations which either deliberately or unintentionally restrict or discourage existing business activities and the future environment for private enterprise.
- Indicators:**
- x_{19} - Regional trading group to which country belongs^D (1=member EEC, EFTA, NAFTA, LAIA, etc.; 0=not a member of above groups)
 - x_{20} - Repatriation policy^D (10=no restrictions; 0=no repatriation)
 - x_{21} - Foreign ownership^D (10=100% allowed; 0=no ownership)
 - x_{22} - Tariff protection^D (0=extensive protection; 10=little or no protection)
- 6) **Physiographic Barriers** - The obstacles to the development of efficient business operations by the physical landscape or land forms of the country.
- Indicators:**
- x_{23} - Road kilometers/100 sq. km.^E
 - x_{24} - Railroad kilometers/100 sq. km.^E
 - x_{25} - Total land area (sq. km)^B
- 7) **Geocultural Distance** - Barriers created by geocultural separation, cultural disparities between countries and problems of communication resulting from differences in social perspectives, attitudes and language.
- Indicators:**
- x_{26} - Landlocked or coastal boundaries^E (1=coastal; 0=landlocked)
 - x_{27} - Primary language Germanic^B (1=yes; 0=no)
 - x_{28} - Air distance from Toronto^E
-

4.1.2 Country Selection

The number of countries included in this study was 48. The Goodnow and Hansz research contained 100 countries, however in order to keep the data analysis manageable, and because of time constraints, it was decided that a smaller

number of countries would be acceptable for this research. The list of countries included in this study is shown in Exhibit 1 below. As can be seen, the list includes all Organization for Economic Cooperation and Development (OECD) nations and selected countries from Asia, Africa and Latin America. Thus the country sample includes both developed and developing nations from all regions of the world.

Exhibit 1
Country Sample

OECD

Australia	Germany (W)	Luxembourg	Sweden
Austria	Greece	New Zealand	Switzerland
Belgium	Iceland*	Netherlands	Turkey
Denmark	Ireland	Norway	U.K.
Finland	Italy	Portugal	U.S.A.
France	Japan	Spain	

Caribbean

Jamaica

Africa

Kenya	Senegal
Morocco	Egypt
Nigeria	

Asia and Pacific

Hong Kong	Taiwan*	Malaysia	Saudi Arabia
Singapore	India	Pakistan	
South Korea	Indonesia	Philippines	

Central and South America

Argentina	Col	Panama	Uruguay
Bolivia	Ecuador	Paraguay	Venezuela
Brazil	Mexico	Peru	

* = Deleted due to lack of data.

4.1.3 Indicator and Country Modification

Originally, 50 countries were to be classified by 28 indicators in this study. However, both indicator and country selection had to be modified based on data availability.

For the newspapers/1000 variable (x_9), information could not be located for 15 of the selected countries. The majority of these countries were Latin American, however data for more economically advanced countries such as Luxembourg were also missing. The primary source for this variable was the United Nations Statistical Yearbook, however several other sources were consulted in an attempt to locate the information (Business International; World in Figures; International Marketing Data and Statistics; European Marketing Data and Statistics; and the New Book of World Rankings). While these sources helped track down information for some of the 15 countries, it was not possible to locate data for all of the countries. As the statistical technique used to classify the countries ignores the entire case if one value is missing, it was necessary to remove this variable from the analysis.

Iceland and Taiwan were also deleted from this study due to lack of information on these countries. Iceland was removed because Price Waterhouse does not publish an information guide for it and there were no comparable alternative sources of information. Taiwan was deleted as data for a variety of

variables were missing for this country and attempts to locate the information from other sources were unsuccessful.

These modifications resulted in 48 countries being clustered by 27 indicator variables.

4.1.4 Data Analysis

Cluster analysis was used to group the countries into the temperature gradient model of Litvak and Banting. Cluster analysis is a generic name for a variety of mathematical models, numbering in the hundreds, that can be used to find out which objects in a set are similar (Romesberg, 1984). More specifically, a clustering method is a multivariate statistical procedure that starts with a data set containing information about a sample of entities and attempts to reorganize these entities into relatively homogeneous groups; seven major families of clustering methods have been developed (Aldenderfer and Blashfield, 1984):

- (1) hierarchical agglomerative
- (2) hierarchical divisive
- (3) iterative partitioning
- (4) density search
- (5) factor analytic
- (6) clumping
- (7) graph theoretic

However, hierarchical agglomerative methods have been dominant among the seven families in terms of their applied use due to the fact that they are

conceptually easy to understand. Four hierarchical agglomerative techniques have become widely popular: single linkage, complete linkage, average linkage and Ward's method. Ward's method was the chosen clustering technique in this research for three reasons. First, this method was used in the Goodnow and Hansz research on which this thesis is based. Second, the method is widely used in social science research (Aldenderfer and Blashfield, 1984). Third, Ward's method is readily available on the SPSS computer program.

Application of Ward's method in this case involved using the appropriate hierarchical clustering computer program on SPSSX to compare the 48 selected countries on the 27 environmental variables and classify them into Litvak and Banting's temperature gradient model. The 27 variables were standardized and given equal weight in this grouping process. At each stage of the process the two most similar countries were clustered together. First there were 48 groups, then 47, 46, 45 and so forth until all countries were combined into a single group.

4.2 The Survey of Firms

This section describes the sample selection as well as the survey design and implementation that comprises the second part of the study.

4.2.1 Population

The population from which the sample was selected consists of the largest firms operating in the Canadian marketplace, as these firms have the resources available to enter markets with a variety of options.

4.2.2 Sampling Frame

The sampling frame used was the Canadian Business 500 data base (1989 version) which lists the top 500 companies in Canada in terms of sales. (The Financial Post and Report on Business data bases did not contain the ownership information necessary for sample selection.)

4.2.3 Sampling Unit

The unit in this study is firms selected from the Canadian Business 500 database.

4.2.4 Sampling Element

The sampling element is the highest ranking executive responsible for international business in each of the selected firms.

4.2.5 Sample Selection

Initially, only about 250 firms from the sampling frame were to be surveyed. However, after the thesis proposal defence, but before the survey was

actually conducted, it was decided to survey all 500 firms in the frame. For the purposes of calculating the response rate, however, a judgement sampling method was employed to divide the sample into a primary sample (containing the 250 or so firms indicated in the proposal) and a secondary sample.

In accordance with the proposal, the method used to determine the primary sample was based on three criteria. First, the firms in the primary sample must have international operations. Second, in order to obtain accurate results concerning their entry strategies, firms should be in a position to control strategic decisions such as entry methods into foreign markets. Third, firms should have a variety of entry options available to them in order to test the research hypothesis. In the Goodnow and Hansz study, all 750 firms in their Fortune magazine sample basically met the above criteria *de facto*, since large U.S. firms typically are MNCs doing business in a variety of countries, have significant control over foreign operations, and employ a variety of entry strategies. However, this study took place in the Canadian marketplace which is characterized by a high degree of foreign ownership and controlled by a relatively small number of conglomerates such as BCE and Brascan. Therefore, the primary sample from which the response rate was calculated used the same basic type of sample frame as Goodnow and Hansz, but with adjustments to reflect structural differences between the U.S. and Canadian economies. The selection process for the primary sample was divided into three main stages.

Primary Sample

Stage 1

Using the Canadian Business 500 as a starting point, firms were grouped into one of three categories - Canadian owned, foreign owned and N.A. (ownership not disclosed). This resulted in a sample of 315 Canadian-based firms, 165 foreign owned firms and 20 firms which did not reveal their ownership.

The 315 Canadian owned firms were divided into industry sectors (see Appendix 2). Those sectors which do not tend to have international operations or which tend to be more service oriented were excluded from this primary sample as service firms usually do not have a "product" to export. A list of the sectors excluded and the number of firms in each of the sectors is as follows:

Agriculture	4
Construction	15
Food and Hospitality	5
Health care	1
Leisure	3
Media and Communication	11
Real Estate	8
Retailing and Wholesaling	41
Trading	5
Utility	8
	<hr/>
	101

This left 214 firms in the primary sample.

Large conglomerates such as BCE, Brascan, Enfield and Canadian Pacific were also removed from the primary sample because they are not usually involved in operational decisions such as selecting foreign entry modes. It is therefore preferable to survey their subsidiary operations such as Northern Telecom and CP Forest Products, which are listed as separate entities in the Canadian Business 500. The procedure outlined above resulted in 210 firms remaining in the sample.

Stage 2

While foreign owned companies do not always have control of their international operations (these decisions being made in the head office of the corporation), some foreign owned subsidiaries do control strategic decisions such as entry method. For instance, Hewlett Packard Canada and Dupont Canada, while U.S. owned, undertake international operations from Canada and are in charge of their foreign entry strategies. Therefore, a list of 35 foreign owned firms which were thought to be in control of strategic decisions and which were in industry sectors not excluded in Stage 1 were added to the primary sample.

Stage 3

The firms which did not disclose country ownership were excluded from the primary sample as they could not be identified as Canadian-owned or foreign owned.

Secondary Sample

The selection process described above resulted in a primary sample of 245 large Canadian-based firms which were involved in international operations, controlled the foreign market entry decisions and had a variety of entry options available to them. The secondary sample was comprised of the remaining 255 firms.

4.2.6 Choice of Sampling Element

The Goodnow and Hansz research addressed the survey to the Vice President International without identifying the name of this person. In today's workplace, however, companies are being surveyed to the point of saturation; therefore, it was decided that personalization would be an important aspect in making the questionnaire more appealing (this subject will be discussed in more detail later in this chapter). Thus a major effort was undertaken to consult and cross-reference all available directories (Scott's Directories, the Canadian Key Business Directory, the Financial Post's Directory of Directors and Export Canada) in an attempt to locate the appropriate executive to survey within each firm and the name of that person. However, there was very little consistency among the firms regarding titles for executives in charge of international operations: some firms had a Vice President International, others had a Vice President International Affairs and many had no executives with "international" titles, but other executives who may have had the information necessary to

complete the survey, such as Vice President Corporate Planning, Vice President Marketing and/or Vice President Finance. Due to this lack of consistency, it was decided that the Chief Executive Officer (CEO) would be the most appropriate person to whom to address the questionnaire. Every firm had a CEO, and the CEO is often involved in international operations. Furthermore, a cover letter asked that the CEO pass on the questionnaire if it should be answered by someone else in the company. In order to ensure that the name and address of the CEO placed on the mailing label and cover letters was correct, the Financial Post Directory of Directors (November 1991 edition) was consulted to update the Canadian Business software package used to create the mailing list.

4.2.7 Survey Instrument Design and Content

The questionnaire aimed to determine the type of entry strategies used by each firm for its major product line in each of the 48 countries under investigation. It was designed along the lines of the survey instrument used by Goodnow and Hansz and efforts were made to simplify completion of the survey and minimize confusion or ambiguity in the questions. The questionnaire consisted of a title page and four questions/sections (a copy of the survey is contained in Appendix 3). The title page introduced the content of the questionnaire and restated some of the messages in the cover letter such as the confidentiality of the survey and how to receive a copy of the results of the study

if desired. Furthermore, the title page was coded to track responses against the mailing list.

Question (1) - The first question sought to determine the major product line which contributed the most to the firm's foreign sales. A product line can be defined as:

"a group of products that are closely related because they function in a similar manner, are sold to the same customer groups, are marketed through the same type of outlets or fall within given price ranges" (Kotler, 1988, p. 452).

Due to the number of product lines marketed by the firms, only the major product line was requested in order to provide a frame of reference for the respondents, and to keep the data at a comparable and manageable level.

However, phrasing this first question was complicated by the fact that not only manufacturing firms were being surveyed. Service oriented companies such as retailers and construction firms were also included in the Canadian Business 500. Therefore, this question left the definition of product or service line open to interpretation depending on how these "lines" were expressed by the individual firm.

Question (2) - The second question consisted of a matrix over two pages which listed the 48 selected countries vertically and eight strategy options across the top. The respondent's task was merely to check off the appropriate strategy for each country in which their firm was involved. The strategy options were as follows:

- **Indirect exports - exporting via independent intermediaries located in Canada, such as agents or trading houses (i.e., no direct contact with intermediaries or customers in the foreign country).**
- **Direct exports to intermediaries/customers abroad - exporting from Canada, or another of the firm's operations outside the target country, to intermediaries or customers located in the foreign country.**
- **Sales/marketing branch abroad - exporting to the firm's own sales or marketing subsidiary located in the foreign country.**
- **Licensing and franchising - contractual arrangement between the firm and a partner(s) located in the foreign country; product/service produced in the foreign country.**
- **Contract manufacturing - product produced for the firm by another firm located in the foreign country.**
- **Joint venture - shared equity undertaking in the foreign country between the firm and a partner(s) in the foreign country; product/service produced in the foreign country.**
- **Fully owned foreign operation - manufacturing, assembly or service establishments in the case of service firms, in the foreign country at fully owned facilities.**
- **Other - methods of operation not covered above - firms asked to specify.**

These definitions were also included in the questionnaire itself to ensure that responses were consistent with each other and in order to lessen the ambiguity of the questions.

Finally, the year in which the country was entered by the firm was also requested in this section.

Section (3) - This section consisted of demographic questions seeking the domestic and foreign sales of the firm's major product or service line (in either Canadian or U.S. dollars) and the fiscal year end for the company.

Section (4) - This section sought demographics for the entire company, such as sales, profits, assets, employees and the percentage of sales spent on research and development, as well as the position of the person who answered the questionnaire.

The survey was pretested with two executives in the Ottawa area - the Vice President of a medium sized Canadian owned firm with operations in the U.S., Australia, the United Kingdom and Germany; and the controller of the Export Development Corporation, a crown corporation which helps Canadian firms export their products or services. Both individuals offered useful suggestions which were incorporated into the final draft of the survey instrument.

The survey implementation process consisted of three steps: a pre-notification letter, a cover letter with the questionnaire, and a reminder notice with the questionnaire. In order to increase the response rate of the survey, the letters and questionnaire were personalized to the point of signing every letter individually and identifying each respondent by name. These techniques follow closely the suggestions of Dillman (1978). Dillman has suggested that the process of sending a questionnaire and getting respondents to complete and return it can be viewed as a special case of "social exchange". The theory of social exchange asserts that the actions of individuals are motivated by the return these actions are expected to bring from others (Blau, 1964). It is assumed that people engage in any activity because of the rewards they hope to reap, that all activities they perform incur costs, and that people attempt to keep their costs below the rewards they expect to receive. Extending this theory to the survey situation, there are three things that must be done to maximize survey response: minimize the costs for responding, maximize the rewards for doing so, and establish trust that those rewards will be delivered.

Dillman states that the rewards most researchers can offer to respondents are few but should not be underestimated. For instance, being regarded positively by another person has a reward value for many people. Explaining to someone that they are important to the success of the study represents a way of expressing positive regard for respondents. Personalization techniques such as real signatures

and individual salutations as well as words of appreciation throughout the questionnaire are also methods of showing positive regard. As mentioned previously, these personalization techniques were used throughout the survey, and results of the study were promised to respondents as a further reward.

The costs that respondents incur can also be reduced in a number of ways. Dillman states that time is the major cost experienced by respondents. Other costs include the confusion produced by complex questions and financial expenses such as having respondents furnish their own envelope and stamp in order to return the questionnaire. All the above costs increase the likelihood of a low response rate. As previously mentioned, efforts were made to simplify completion of the questionnaire and keep it as brief as possible. These messages were also conveyed in the pre-notification and cover letters. Furthermore, a postage-paid, pre-addressed return envelope was included with the questionnaire.

Thus attempts were made to decrease the costs and increase the rewards of responding to this survey by following the suggestions of Dillman's Total Design Method. Complete details of the actual steps taken to implement the survey are described below.

4.2.8 Survey Implementation

The pre-notification letter was sent three days prior to the questionnaire mailout. This letter was sent under the signature of the thesis supervisor of the study and informed the respondents that in a few days they would be contacted by the researcher and asked to participate in a survey of their firms' methods of operating abroad. This pre-notification letter contained several important messages such as the confidentiality and brevity of the survey and the importance of the respondent to the success of the study.

The questionnaire and cover letter were sent out three days later and reinforced the messages conveyed in the pre-notification letter. Finally, three weeks after the initial questionnaire was mailed, a reminder letter was sent to nonrespondents along with a second copy of the questionnaire. The pre-notification, cover and reminder letters can be seen in Appendix 4.

4.3 Relating Cluster Analysis to the Survey

4.3.1 Data Structure and Error Check

Data structure is simply the manner in which a respondent's information is positioned in a storage medium. In this study, the information was divided into two parts - the matrix containing the methods of operation and the firms' demographics. This structure was selected because it allowed for an error check. Based on this structure the researcher could spot most input errors.

A further check was to generate frequency tabulations for the entire set of questionnaires. These frequencies were then assessed for inconsistencies and missing data.

4.3.2 Data Analysis

The research hypothesis was examined using a BASIC program which tests for homogeneity among multinomial distributions (Potthoff and Whittinghill, 1966). A variety of other statistical procedures was considered, however this program most closely matched the requirements for testing the relationship as it indicates if there is a difference between a set of distributions (in this case, the entry methods across the four clusters).

The procedure consisted of totalling for each of the four clusters the number of entries for each of the seven methods of operation. For instance, fully owned operations were used 41 times to enter the super hot market, 62 for the hot cluster, 24 for the moderate and 9 for the cold. These results are summarized in Table 2. (The "other" category included in the questionnaire was only checked off a few times. These methods were thus added to the entry category to which they were most similar.)

Table 2 - Number of Entries in Each Cluster

Market Entry Strategy	<u>Cluster</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	41	62	24	9
Export via Sales/Marketing Branch Abroad	20	79	45	8
Joint Venture	6	18	20	10
Contract/Manufacturing	1	2	0	1
Licensing/Franchising	2	4	10	8
Exports to Intermediaries/ Customers Abroad	43	229	223	117

These numbers were then input into the BASIC program and a set of statistics was generated. These statistics included a chi-square value and the degrees of freedom associated with the chi-square. These data were then checked in a chi-square table to determine at what level the relationship was significant. If a zero p estimate for one or more categories of market entry strategy occurred, a z -value was computed and this statistic was used to test the relationship (Potthoff and Whittinghill, 1966, Appendix 6). It should be noted that in the case of a zero p estimate, the chi-square statistic cannot be computed. Finally, frequency distributions for each of the entry strategies were calculated to determine the direction of the relationship.

4.4 Conclusion

This chapter has described the methodology used to test the research hypothesis. While this methodology is based on the work of Goodnow and Hansz, it also includes modifications and improvements over the original study which are listed below:

- 1) The indicators selected for this research are all based on documentary sources such as U.N. publications and Price Waterhouse Information Guides, etc.. The Goodnow and Hansz research contained 16 variables whose source was "expert opinion" which cannot be replicated or corroborated at a future date. The selection of indicators was also more systematic as variables chosen for this research have all demonstrated their usefulness in other studies (see Table 1).
- 2) In order to operationalize the Litvak and Banting temperature gradient model, Goodnow and Hansz arbitrarily chose the three group cluster solution as the focus of their analysis. This research validated the cluster solutions to help determine the appropriate number of clusters to analyze (please see below).
- 3) The selection of firms in the primary sample was more systematic than in the Goodnow and Hansz research. These researchers merely

selected all of the top 750 companies listed in Fortune Magazine as their sample. In order to identify a "primary sample" (which was the focus of this research), this study employed a judgement sampling method based on three criteria - the firms must have international operations; they should be in a position to control entry decisions; and they should have a variety of entry options available to them. While the Fortune 750 in Goodnow and Hansz's research generally met these criteria *de facto*, it is possible that some of these firms confined themselves to the U.S. market, or that a large foreign firm, whose entry decisions are controlled by head office, placed in the top 750. The sample selection procedure in this study limits the possibility of these situations occurring.

- 4) The presentation and analysis of the research is more rigorous than Goodnow and Hansz's. The research examines the hypothesis using a test for homogeneity among multinomial distributions and breaks down the results by firm size. The Goodnow and Hansz study did not test the hypothesis, nor did they analyze their data by demographics.

The next chapter of this thesis will discuss the findings of the research.

5. FINDINGS AND DISCUSSION

5.1 Temperature Gradient Model

5.1.1 Cluster Solution

After the computer program had clustered all the countries, a choice had to be made concerning the number of clusters to be used in the study. Hair, Anderson and Tatham (1987) state:

A major issue with all clustering techniques is how to select the number of clusters. There are many criteria and guidelines for approaching the problem. Unfortunately, no standard, objective selection procedure exists ... it is probably best to compute solutions for several different numbers of clusters and then decide among the solutions based on a priori criteria, practical judgement, common sense or theoretical foundations. (p. 306)

The cluster solution chosen for this study deviated slightly from the Goodnow and Hansz three group solution of "hot", "moderate" and "cold" clusters. The three-group cluster in this study consisted of the United States in the hot category, a group of 15 moderate countries, and a group of 32 cold countries in which developed and culturally similar nations such as Australia were combined with very underdeveloped and culturally distant countries such as Nigeria and Indonesia. At the five cluster solution, Spain, like the U.S., broke off on its own and the analysis would have been very complicated with two clusters of one country each. Following the suggestion of Hair, Anderson and Tatham (1987) mentioned above, the four group solution (consisting of "super hot", "hot",

"moderate" and "cold" clusters) was chosen to be the unit of analysis for this study as it made intuitive sense and most closely matched the results of Goodnow and Hansz. (See Appendix 5 for country placement in the four cluster solution.) The U.S. can be considered a "super hot" market and the other three clusters were very similar to the "hot", "moderate" and "cold" clusters of Goodnow and Hansz. The U.S. branching off on its own is not unexpected as it receives 73% of Canada's exports (External Affairs, 1989) and 67% of our foreign direct investment (Statistics Canada, 1987). From a Canadian firm's point of view, the U.S. is a "super" market: it is geoculturally similar (it is Canada's closest neighbour), has the world's highest Gross National Product, is politically stable and has few barriers to trade. When Goodnow and Hansz conducted their research in 1972, there was no comparable country from a U.S. firm's point of view.

Further supporting the choice of the four cluster solution is the similarity of the remaining three clusters to those of Goodnow and Hansz as well as their intuitive appeal. The hot countries consist of the G-7 countries (other than the U.S. and Canada), the more economically advanced European countries such as Sweden and Belgium, as well as countries such as Hong Kong and Ireland which are important trading centres due to their links with huge trading areas such as the European Community and the Asia Pacific region.

The moderate cluster consists of less economically advanced European countries such as Spain and Portugal, more advanced Latin American countries such as Venezuela and Chile, and small but advanced markets which are culturally similar to Canada such as New Zealand and Australia.

The cold cluster consists of African nations as well as less advanced Latin American and Asia Pacific countries.

Notwithstanding the intuitive appeal of the four cluster solution and the close match to the Goodnow and Hansz research, the results were further examined in order to determine if four clusters was indeed the optimal solution. Aldenderfer and Blashfield (1984) have stated that "some type of validation procedure is necessary in any cluster analysis study" (p. 74). Therefore, the three-, four- and five-group solutions were saved in an active file and a multivariate analysis of variance (MANOVA) of seven variables not used to generate the cluster solutions was performed. This procedure computed F-statistics for each of the seven external variables in order to test for the significance of the clusters. This validation technique is considered by statisticians to be among the better ways to validate a clustering solution (Aldenderfer and Blashfield, 1984).

The results of these tests were as follows:

The three group solution: Four of the seven external variables were significant at the .000 level and five of the seven were significant at the .055 level.

The five group solution: Five of the seven external variables were significant at the .005 level and six of the seven were significant at the .25 level.

The four group solution: Five of the seven variables were significant at the .002 level and six of the seven were significant at the .125 level. (The external variables used in testing the clusters and the environmental factors they represent are listed in Appendix 6.)

Therefore, this validation technique tends to support the choice of the four group cluster solution. The next section of the paper will attempt to interpret the country environmental data by comparing these data across clusters and contrasting them with the results of Goodnow and Hansz.

5.1.2 Cluster Profiles

Table 3 provides a comprehensive review of the similarities and differences among the four clusters.

Table 3
Cluster Profiles of the 34 Variables

Variable	"Super Hot"	"Hot"	"Moderate"	"Cold"	Total Sample
Cluster Size	1	15	21	11	48
<i>A. Political Stability Measures</i>					
x₁ Riots	7	2	4	4	4
x₂ Protest Demonstrations	51	6	3	3	5
x₃ % of countries with assassinations	0	13	19	9	17
x₄ years since independence	225	192	134	61	135
<i>B. Market Opportunity Measures</i>					
x₅ GNP annual growth rate	4.4%	3.6%	3.0%	4.5%	3.6%
x₆ % literacy rate	99	96	85	50	81
x₇ GNP/capita (\$US)	19,197	13,762	4,050	806	6,657
x₈ Radios/1000	2,126	584	474	185	476
x₉ Total Population (000's)	246,043	27,719	20,561	138,851	54,603
<i>C. Economic Development Measures</i>					
x₁₀ Male life expectancy	72	73	67	55	66
x₁₁ Steel consumption/capita (kg)	417	358	153	32	194
x₁₂ Exports as % of GNP	7	56	23	21	33
x₁₃ Inhabitants/Physician	593	669	1,476	9,370	3,014
x₁₄ GNP (millions \$US)	4,723,369	393,515	62,761	76,326	266,326

Table 3 (Continued)

Variable	"Super Hot"	"Hot"	"Moderate"	"Cold"	Total Sample
Cluster Size	1	15	21	11	48
<i>D. Cultural Unity Measures</i>					
x ₁₃ % of countries with religious homogeneity	0%	73%	81%	73%	75%
x ₁₄ % of countries with ethnic homogeneity	100%	80%	67%	18%	58%
x ₁₇ % of countries with linguistic homogeneity	100%	67%	90%	55%	75%
<i>E. Legal Barrier Measures</i>					
x ₁₈ % of countries belonging to strong common market	100%	87%	62%	45%	67%
x ₁₉ Repatriation policy (10=no restrictions; 0=no repatriation)	9	9.5	8.1	7.4	8.4
x ₂₀ Foreign Ownership (10=100% allowed; 0=no ownership)	9	8.8	7.4	6.0	7.6
x ₂₁ Tariff Protection (10=little protection; 0=extensive protection)	8	8.1	7.1	6.4	7.3
<i>F. Physiographic Barrier Measures</i>					
x ₂₂ Road km/100 sq. km.	69	193	32	18	80
x ₂₃ Railroad km/100 sq. km.	3	10	2	0	4
x ₂₄ Total land area (000 sq. km.)	9,167	175	1,014	1,641	1,066

Table 3 (Continued)

Variable	"Super Hot"	"Hot"	"Moderate"	"Cold"	Total Sample
Cluster Size	1	15	21	11	48
<i>G. Geocultural Distance Measures</i>					
x ₂₅ % of countries with coastal access	100%	93%	86%	100%	92%
x ₂₆ % of countries whose primary language is Germanic	100%	53%	19%	18%	31%
x ₂₇ Air distance from Toronto	566	7,438	7,732	10,366	8,094
<i>External Variables</i>					
- Armed Attacks	12	29	7	3	13
- TV/1000	813	342	197	53	222
- Energy Consumption/capita (kg)	9,721	5,111	2,277	401	2,888
- % urban population	74	81	64	38	64
- Discrimination against foreign investors (10=no discrimination; 0=no foreign investment)	10	9.4	8.0	6.7	8.2
- Population/sq. mi.	68	2,107	168	242	789
- % of countries where Judeo-Protestant culture is predominant	100%	75%	76%	18%	58%

In general, as one moves across the temperature gradient model from super hot to cold, the markets become poorer; GNP per capita declines; economic indicators such as steel and energy consumption decrease; ethnic homogeneity declines; legal barriers and geographic distance increase and cultures become different from Canada. These results are consistent with those found by Goodnow and Hansz and follow the expected trend.

However, some of the variables in Table 3 do not follow the trends described above, thus warranting further investigation and discussion. Both the average number of riots and protest demonstrations are the same in the cold and moderate clusters, and less than the number in the super hot cluster. These numbers were normalized on a per capita basis in order to determine if the populations across the four clusters accounted for these differences. The results of this normalization indicated that the variables still differed from the expected trend with cold countries having the fewest riots and protest demonstrations per capita. A possible explanation for this apparent contradiction is that political violence is partially a function of liberty (Taylor, 1983). Societies that have constraints on the state sufficient for the preservation of individual liberties are also unable to prevent the display of political discontent, even if this discontent sometimes assumes violent forms. In fact, the only political stability indicator that followed the expected trend was years since independence - the hotter clusters

were independent for a longer period of time than the colder ones. All other categories were less clear in their relationship.

The GNP annual growth rate also differs slightly from the expected direction as cold countries have the highest growth rate. This is likely due to the fact that the cold countries consist of very underdeveloped economies and any growth is likely to be dramatic. In contrast, the more developed (warmer) countries have more mature economies and explosive growth rates are unlikely in these countries.

The super hot market of the U.S. also has a very low "export as a percentage of GNP" variable, which is somewhat surprising since advanced economies tend to be more export driven than less advanced countries. However, the U.S. is such a huge market that its domestic demand has limited its need to export until recently and thus its economy is not as export driven as one might suspect given its economic power. Furthermore the large Gross Domestic Product (G.D.P.) of the U.S. tends to dwarf its export sales percentage-wise.

A further discrepancy is that the average GNP of the cold cluster is higher than the moderate cluster. However this is due to the large populations of cold countries such as Nigeria and India - the GNP/capita of the moderate countries is higher than the cold ones.

Overall, 19 of the 34 indicators (56%) followed the expected trend, and the exceptions noted above can be reasonably explained.

5.1.3 Country Placement

This research also allows a comparison between country placement in the Goodnow and Hansz research and this study. However, it should be noted that while this is a replication of the work of Goodnow and Hansz, there are several modifications and refinements over their study (see Section 4.4).

Overall, this research clustered 32 of 47 countries (68%) the same as Goodnow and Hansz. This is quite impressive considering the original study is about 20 years old, had a sample of 100 countries and was conducted in a different nation. A comparison between country placement in this study and that of Goodnow and Hansz can be seen in Exhibit 2. In order to determine if the changes that did occur could be supported by external sources, a review of the pertinent literature was conducted. The results of this review are discussed below.

Exhibit 2
Comparison of Country Placement

Goodnow and Hansz**Present Research****Super Hot**

U.S.
(not in original study)

Hot

Australia	Italy
Austria	Japan
Belgium	New Zealand
Luxembourg	Norway
Denmark	Sweden
France	Switzerland
Germany(W)	United Kingdom

Hot

*Belgium	*Japan
*Denmark	*Luxembourg
*France	*Netherlands
*Germany(W)	*Norway
Hong Kong	Singapore
Ireland	*Sweden
*Italy	*Switzerland
	*United Kingdom

Moderate

Brazil	Mexico
Chile	Panama
Ecuador	Portugal
Finland	Singapore
Hong Kong	South Korea
Ireland	Spain
Jamaica	Uruguay
Malaysia	Venezuela

Moderate

Argentina	New Zealand
Australia	*Panama
Austria	Paraguay
Bolivia	*Portugal
*Chile	Saudi Arabia
*Ecuador	*South Korea
Egypt	*Spain
*Finland	Turkey
Greece	Uruguay
*Jamaica	*Venezuela
*Mexico	

Cold

Argentina	Nigeria
Bolivia	Pakistan
Egypt	Paraguay
Greece	Peru
India	Philippines
Indonesia	Saudi Arabia
Kenya	Senegal
Morocco	Turkey

Cold

Brazil	*Morocco
*Indonesia	*Nigeria
*India	*Pakistan
*Kenya	*Peru
Malaysia	*Philippines
	*Senegal

* Classified the same in both studies

Country Placement in the Hot Cluster

Twelve of the 15 "hot" countries (80%) from this study were also classified as hot in the Goodnow and Hansz research. One might intuitively assume that the OECD nations would be classified as hot in both studies. However, Australia, Austria and New Zealand all went from the hot cluster in that study to the moderate in this one. Both Australia and New Zealand have experienced economic hardships over the past few years and thus it is not surprising that they dropped out of the hot cluster. In Australia, unemployment has reached its highest level since the 1930s and foreign debt has grown from less than \$15.8 billion in 1982 to \$102.76 billion in 1991 (Button, 1991). In New Zealand, unemployment doubled between 1986 and 1991 and gross domestic product fell 0.7% from 1985 to 1990, the worst record of any industrialized nation (Callick, 1991). Furthermore, these countries have relatively restrictive trade policies and do not belong to a major trade bloc.

Ireland, Hong Kong and Singapore all moved from the moderate cluster in the Goodnow and Hansz work to the hot cluster in this research. The fact that these countries are important trading centres with links to huge markets in Europe and the Asia Pacific region likely accounts for the movement. Between 1975 and 1984 the average annual growth rate of Hong Kong in real terms was 11 per cent, roughly twice that of the rest of the world (Mun and Chan, 1986); and Singapore's Gross Domestic Product has increased by an average of 9% over the past 20 years

(Economist, 1990). Ireland is in the same position as Hong Kong and Singapore but its link is to the European Community (EC) - a market of 320 million people and the world's largest trading unit (External Affairs, 1989). Over the past several years there has been a huge inflow of foreign direct investment into Ireland because of wage advantages over most of its EC neighbours (O'Sullivan, 1985). Most of this output is then exported to the rest of the EC and accounts for Ireland becoming an extremely attractive market for trade and investment.

Country Placement in the Moderate Cluster

Eleven of 21 (52%) moderate countries from this study were placed in the same group as the Goodnow and Hansz study. This cluster had the least overlap because several countries moved from the cold cluster in the previous work to the moderate cluster in this study. This again is consistent with external evidence. The globalization of markets which has occurred over the past several years has meant that there are fewer unattractive (or "cold") markets than there were 20 years ago. As Levitt (1983) states, "old markets become saturated and new ones must be found - technology is driving the world towards converging commonality." (p. 92).

As mentioned previously, Ireland, Hong Kong and Singapore moved from the moderate cluster in Goodnow and Hansz to the hot cluster in this work. The countries that moved from the cold cluster in Goodnow and Hansz to the moderate group in this research were Argentina, Bolivia, Egypt, Greece, Paraguay,

Saudi Arabia and Turkey. Greece's membership in the European Community and Turkey's association with the Community have helped these countries to become more industrialized (Kaynak and Gurol, 1987). Saudi Arabia and Egypt's oil reserves have helped their economies develop rapidly - for example, the value of imports into Saudi Arabia increased 38-fold between 1971 and 1982 (Tuncalp et al., 1987). And Latin America has become a region of increasing importance as many countries there become more export driven and developed. Furthermore, all of these countries have relatively few restrictions on foreign investment and today are much more stable, both culturally and politically.

Brazil and Malaysia moved from being moderate in the Goodnow and Hansz research to cold in this analysis. It is not surprising that Brazil is a cold country - in the last ten years inflation has averaged 260% per year and the country has twice defaulted on its external debt. Furthermore, foreign trade is severely restricted in Brazil. Until 1990, more than 1000 sorts of imports were prohibited and other imports needed special licenses or were limited by quotas (Economist, 1990). Malaysia's economy is not in as poor shape, comparatively, as Brazil's, however foreign trade and investment is quite restricted and there is little cultural homogeneity in the country.

Country Placement in the Cold Cluster

Nine of the 11 (82%) cold countries were classified the same in both this study and the work of Goodnow and Hansz. As mentioned previously, Brazil and Malaysia moved from the moderate to the cold cluster, and seven countries moved from the cold cluster to the moderate. The nine countries that maintained their status as cold markets were India, Indonesia, Kenya, Morocco, Nigeria, Pakistan, Peru, the Philippines and Senegal. All of these countries have very underdeveloped economies, restrictive trade policies and/or cultural fractionalization.

Therefore, there was a great deal of overlap in country placement between this study and the Goodnow and Hansz research, and the changes that did occur were consistent with how the world has changed in the 20 years between the two studies.

5.1.4 Conclusion

All of the empirical sources discussed in the previous sections tend to validate the choice of the four cluster solution in this analysis. This choice is further reinforced by the results of a validation technique on seven external variables and the similarities between this research and that of Goodnow and Hansz. Having established the cluster solution for this study, the next section will

compare these clusters with the results of the survey of Canadian firms in order to test the research hypothesis.

5.2 Results of the Survey

5.2.1 Survey Responses

The initial mailing of the questionnaire resulted in 94 responses. These responses could be put into one of three categories: (1) Respondents with international operations who filled out the questionnaire and returned it; (2) Companies which contacted the researcher to indicate that they were not involved in any foreign operations; and (3) Firms which may or may not have international operations who declined to participate for a variety of reasons such as no time to complete the questionnaire, or the firm did not complete questionnaires as a matter of company policy.

The second mailing resulted in 86 more responses falling within the categories outlined above. Overall there were 180 responses - 99 respondents with international operations who filled out the questionnaire (79 in the primary sample), 59 companies with no foreign activities and 22 who declined to participate.

Fifty-four of the companies surveyed were not listed in the 1991 edition of the Financial Post's Directory of Directors, and thus were not included in

calculating the response rate. The response rates for the primary, secondary and overall sample are summarized in Table 4. As noted in this table, the overall response rate was 40% and the response rate for usable questionnaires in the primary sample was 36%.

Table 4
Summary of Survey Responses

Sample	Primary	Secondary	Overall
Sample size	245	255	500
Less firms not included in Fin. Post (1991 edition)	27	27	54
Effective sample size	218	228	446
Responses	100	80	180
Overall response rate	46%	35%	40%
Declined to participate	11	11	22
No international operations	10	49	59
Respondents with international operations	79	20	99
Usable questionnaires response rate	36%	9%	22%

Both of these results are very good considering business surveys generally receive very few responses due to the time constraints of business people and firms being over-surveyed. This response rate is also superior to that of Goodnow and Hansz who obtained a 30% response rate, and whose survey was conducted

20 years ago, before the explosion of surveying which has occurred over the last several years. It is also interesting to note that 49 of the 59 firms (83%) with no international operations were in the secondary sample, and 79 of the 99 firms (80%) with international operations were in the primary sample, thus supporting the decision to split the sample in order to calculate the response rate.

5.2.2 Sample Profile

The responses were broken down by various demographics such as total sales, firm rank in the Canadian Business 500, total assets, total employees and ownership. These results are summarized in Table 5.

Table 5
Sample Profile

<u>Variable</u>		<u>Sample</u>	<u>Frame</u>
Total sales	\$0-260 million	30%	36%
	\$261-700 million	35%	33%
	\$701 million and above	35%	30%
Firm rank	1-250	48%	50%
	251-500	52%	50%
Total assets	\$0-300 million	37%	n.a.
	\$301-999 million	23%	
	\$1 billion and above	40%	
Total employees	0-1000	27%	n.a.
	1001-2999	34%	
	3000 and above	39%	
Ownership	Canadian-based	65%	63%
	Foreign-owned	32%	33%
	Ownership unknown	2%	4%

Overall, the survey is quite representative of the frame. The three total sales categories all contain approximately one-third of the responses and closely match the frame distributions. Furthermore, firm rank also indicates that the sample is fairly representative of the Canadian Business 500 - the number of responding firms ranking in the top 250 is 48%, and the number of firms in the bottom 250 is 52%. Finally, the responses were very representative according to the ownership of the firm.

The total assets and total employees demographics were not compared with the frame because the Canadian Business 500 is ranked only by sales. However, since the sales, firm rank and ownership demographics represent the frame quite well, it is thought that the assets and employees categories are also representative.

Other demographics were also visually checked and warrant some discussion. The individual who filled out the questionnaire was placed into one of four categories as listed below:

President	27%
Vice President - Marketing/International	19%
Vice President - Other	12%
Other	41%

The "other" category includes positions such as business analyst, comptroller secretary, etc., and comprises the highest percentage of respondents.

The major product line listed by the firm usually matched its industry sector. For instance, for Forestry Products, firms' product lines were almost always newsprint or pulp. However, there were some exceptions, such as mining ropes being the main product line of a Consumer Products company.

Forty-four percent of the firms entered the countries under investigation between 1980 and 1992, suggesting that many of the firms surveyed have only recently undertaken foreign expansion.

Some final observations from this visual check of the questionnaire responses indicated that exporting directly to intermediaries/customers abroad was the most popular method of entering a foreign market, accounting for 59% of the foreign activity; and that the U.S. was the most popular market to enter, with all but six firms active in that country.

The next section of this chapter will compare the results of the survey with the cluster analysis to determine if the research hypothesis is empirically supported.

5.3 Relating Cluster Analysis to the Survey

The cluster analysis was compared with the survey on an overall basis, by firm size, and on an individual country basis.

5.3.1 Overall Results

The overall results suggest that a relationship between foreign environment and entry method is supported at the .005 level (chi-square=49.36; degrees of freedom=12) by the test for homogeneity among multinomial distributions, indicating that firms use different entry strategies for each of the four clusters. In order to determine the direction of the differences a frequency distribution of the strategies was calculated for each of the clusters and is shown in Table 6. Examining this table, the results tend to support the research hypothesis: the firms surveyed pursue entry strategies involving greater control and investment as the country's environment becomes hotter according to the temperature gradient model.

Table 6 - Percentage Distribution of Market Entry Strategies by Country Cluster

Market Entry Strategy	<u>Percent of Firms Using Strategy</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	34.2	14.9	6.8	5.5
Export via Sales/Marketing Branch Abroad	16.7	19.0	12.8	4.9
Joint Venture	5.0	4.3	5.7	6.1
Contract/Manufacturing	0.8	0.5	0	0.6
Licensing/Franchising	1.7	1.0	2.8	4.9
Exports to Intermediaries/Customers Abroad	35.8	55.2	66.2	71.3
Indirect Exports	5.8	5.1	5.7	6.7

The percentage of firms with fully owned operations in each cluster declines as one moves from the super hot market of the U.S. to the cold cluster (i.e., Cluster 1 to Cluster 4). Exporting via sales/marketing branches located in the foreign country, another relatively high control/commitment strategy, follows the same trend: the percentage of firms using this method declines as one moves from

the hot to the cold cluster (the super hot market probably does not employ this strategy as often as the hot cluster due to the high percentage of fully owned facilities which may include sales branch operations). Furthermore, as firms move from Cluster 1 to Cluster 4, they generally make more use of joint ventures and licensing agreements which are less risky strategies: licensing agreements involve the transfer of technology or human skills and thus are immune to expropriation; and joint ventures are shared equity undertakings, usually with local partners who provide capital and knowledge of the host country's environment. Exports to intermediaries or customers abroad also involves less risk as the firm does not commit a great deal of resources to the distribution channel, and again this type of entry becomes more prevalent as the country's environment becomes colder. Furthermore, with the exception of the U.S. (Cluster 1), the use of indirect exporting, the least risky form of channel activity, increases as firms move from hot to cold countries. And the U.S. is probably entered with indirect exporting because of its geocultural proximity to Canada, and the North American Free Trade Agreement.

These results tend to support the research hypothesis. However, in order to further validate these findings, they were compared with those of Goodnow and Hansz. The Goodnow and Hansz results are contained in Table 7. Comparing Table 6 with Table 7 it can be seen that several of the trends exhibited in this research are similar to those discovered by Goodnow and Hansz. Firms in both

studies made less use of fully owned operations, and more use of indirect exports and exports to intermediaries as the clusters became colder.

Table 7 - Percentage Distribution of Market Entry Strategies by Country Cluster (Goodnow and Hansz results)

Market Entry Strategy	<u>Percent of Firms Using Strategy</u>		
	Hot	Moderate	Cold
Fully Owned Operation	14.5	6.1	1.5
Export via Sales/Marketing Branch Abroad	19.2	29.9	32.4
Joint Venture	3.0	2.2	0.7
Licensing/ Franchising	7.6	4.2	3.5
Exports to Intermediaries/ Customers Abroad	24.2	35.6	43.4
Indirect Exports	2.9	5.3	6.4

However, the other three entry strategies of licensing agreements, joint ventures, and exporting via sales/marketing branches exhibited different trends between the two studies. Goodnow and Hansz found that firms used licensing

agreements and joint ventures less often and exporting via sales/marketing branches more often as the environment became colder. As mentioned previously, in this research the opposite was observed. These differing results may be due to recent developments in the use of these strategies by MNCs. A recent study examining the propensity of firms to use licensing versus direct investment states: "Licensing agreements are receiving increased attention ... for areas of the world where the environment for foreign investment has become more restrictive." (Farok, 1984, p. 167). As discussed in section 5.1.2, colder countries tend to have more restrictive legal barriers than warmer ones. Another article by Beamish (1987) states: "Joint ventures, not wholly-owned subsidiaries, predominate in business organizations used by multinational enterprises in less developed countries (LDCs)" (p. 23). The majority of the countries in Cluster 4 are LDCs. Finally, the differences found for the sales/marketing branches may be a reflection of the higher equity investment in these branches which has been the focus of recent studies (Ahmed, 1977; Anderson and Coughlan, 1987).

Therefore, while there are differences between the results of this research and those of Goodnow and Hansz, these differences can be reasonably explained. Furthermore, the entry method with the highest commitment/control (fully-owned operations), and the entry methods with the least risk/control (indirect exports and exports to intermediaries) did follow the same trend as Goodnow and Hansz, thus

further supporting the hypothesis. The following section will investigate how firm size and sample membership may be related to entry method into the clusters.

5.3.2 Demographics

Firm Size

A frequency distribution was also calculated to see if the results varied by firm size. Firms were grouped into one of three categories based on total sales:

\$0-260 million
\$260-700 million
\$701 million and above

These values were chosen because they allowed an approximately equal number of firms to be included in each category and were representative of the frame. The three sales categories were also examined using the test for homogeneity among multinomial distributions.

The \$0-260 million results indicated that a relationship was supported at the .002 ($z=2.12$) level using the zero p estimate procedure described in Section 4.3.2. The \$261-700 million results were supported at the .003 level ($z=2.04$), again using the zero p estimate. The \$701 million and above category was supported at the .01 level (chi-square=23.86; degrees of freedom=11) using the chi-square statistic.

Thus firms in all three sales categories appear to use different entry strategies into countries depending on their cluster membership. Frequency distributions were also calculated for the sales categories and are contained in Tables 8, 9 and 10 (the total number of firms in these three tables is 92 because seven of the firms filled out the matrix without revealing their sales).

Table 8 - Percentage Distribution of Market Entry Strategies by Country Cluster (Total Sales:\$0-260mln; n=28)

Market Entry Strategy	<u>Percent of Firms Using Strategy</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	38.7	12.7	4.1	7.7
Export via Sales/Marketing Branch Abroad	9.7	28.2	19.2	0
Joint Venture	0	5.6	5.5	0
Contract Manufacturing	0	0	0	0
Licensing/ Franchising	3.2	0	0	0
Exports to Intermediaries/ Customers Abroad	38.7	40.8	61.6	76.9
Indirect Exports	9.7	12.7	9.6	15.4

Table 9 - Percentage Distribution of Market Entry Strategies by Country Cluster
 (Total Sales:\$261-700mln; n=32)

Market Entry Strategy	<u>Percent of Firms Using Strategy</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	29.4	13.5	1.1	2.0
Export via Sales/Marketing Branch Abroad	11.8	13.5	10.2	2.0
Joint Venture	8.8	1.0	4.5	5.9
Contract Manufacturing	0	0	0	2.0
Licensing/ Franchising	2.9	3.8	3.4	2.0
Exports to Intermediaries/ Customers Abroad	47.1	68.3	77.3	82.4
Indirect Exports	0	0	3.4	3.9

Table 10 - Percentage Distribution of Market Entry Strategies by Country Cluster (Total Sales:\$701mln+; n=32)

Market Entry Strategy	<u>Percent of Firms Using Strategy</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	37.0	17.7	11.6	8.1
Export via Sales/Marketing Branch Abroad	23.9	21.1	12.2	9.5
Joint Venture	6.5	5.7	7.0	9.5
Contract Manufacturing	2.1	1.0	0	0
Licensing/ Franchising	0	0	4.1	9.5
Exports to Intermediaries/ Customers Abroad	26.1	51.2	60.0	56.8
Indirect Exports	4.3	3.3	5.2	6.8

The results of these frequency distributions indicated that firms in all three categories exhibited trends similar to those discussed in the overall results. Fully owned operations and marketing branches were less prevalent and intermediaries were used more often as the environments became colder.

However, the relatively "small" firms (i.e., under \$701 million) were more likely to use less risky methods of operation than the \$701 million plus firms. This is particularly apparent in the cold cluster and the super hot cluster. The smaller firms were more likely to use intermediaries in cold countries (approximately 81%) than the larger firms (57%). The larger firms were also more likely to penetrate through fully owned operations and marketing branches. Thus it appears that very large firms have the resources and are more likely to assume the risk of investment oriented methods of operation in cold countries. The same trend outlined above also applies to entry strategies for the U.S.. The \$700 million firms are more likely to invest directly in that market and the smaller firms tend to use indirect exports and intermediaries more often. While the U.S. is not a particularly risky market to enter, the smaller firms may not have had the resources available to them to penetrate the market to the same degree as the larger companies.

Therefore, while all three categories follow the same trends as the overall results presented earlier in Table 6, firm size does seem to affect the chosen entry method as large firms have the resources and are able to assume the risk of direct investment in a foreign country.

Secondary Sample Responses

Twenty of the 99 usable questionnaires were from firms in the secondary sample. Nineteen of these firms were Canadian-owned and one was foreign-owned (auto wholesaler) and with the exception of an agricultural firm, all companies in the secondary sample were service oriented. It is also interesting to note that 12 of the 20 firms (60%) had operations in the U.S. only.

Due to the small sample size, data for these secondary sample firms are only briefly discussed. Frequency distributions of the entry methods for these firms are contained in Appendix 7 and the results are tentatively highlighted. In examining Appendix 7 it appears that these service oriented firms tend to rely on intermediaries to a greater extent than the primary firms in entering the cold markets - almost 96% of firms in the secondary sample use this strategy. However, in penetrating the other three clusters, these firms used more direct investment than the primary sample firms. This may be due to the fact that service sector firms usually have few options other than entering a market through investment modes (i.e., a retail chain of stores).

It would appear, therefore, that the service sector firms are not as internationally oriented as the manufacturing firms which comprise the primary sample. Furthermore, when these service sector firms do expand internationally,

they tend to be risk averse, concentrating their efforts on the U.S. market, and using intermediaries when entering cold markets.

The next section of this chapter will discuss the findings on an individual country basis.

5.3.3 Individual Countries

The entry strategies of firms for each of the 48 countries under investigation, as well as the number of firms entering each market, was calculated and the results are contained in Appendix 8.

In reviewing these data, it appears that the external environment not only influences entry method, it also influences whether a firm chooses to enter a market at all. The average number of firms entering each cluster is summarized below.

<u>Cluster</u>	<u>Average no. of firms entering each cluster</u>
Super hot	93
Hot	25
Moderate	17
Cold	15

However, within each cluster, the number of firms entering specific countries was highly variable. These data are summarized in Table 11. Inspection

of this table and Appendix 8 leads to several interesting observations.

Luxembourg is a hot market, however it is entered by six companies and never with a fully owned plant. This is likely due to its very small population base.

India, Brazil and Indonesia, on the other hand, are classified as cold countries; however, they are entered (albeit primarily through intermediaries) more often than many of the hot countries. This is probably because these countries possess a high market potential and this overrides their other more negative attributes.

Table 11
Cluster Membership Ranked by the
Number of Firms Entering Countries

<u>Country</u>	<u>Cluster Membership</u>	<u>No. of firms entering country</u>
U.S.	Super hot	93
U.K.	Hot	43
Australia	Moderate	41
Japan	Hot	36
France	Hot	36
South Korea	Moderate	36
Germany (W)	Hot	33
Mexico	Moderate	31
Italy	Hot	31
Netherlands	Hot	30
Belgium	Hot	28
Brazil	Cold	27
Hong Kong	Hot	27
Indonesia	Cold	27
India	Cold	25
New Zealand	Moderate	24
Venezuela	Moderate	22
Spain	Moderate	22
Switzerland	Hot	22

Table 11 (Continued)

<u>Country</u>	<u>Cluster Membership</u>	<u>No. of firms entering country</u>
Malaysia	Cold	21
Argentina	Moderate	21
Singapore	Hot	19
Denmark	Hot	17
Austria	Moderate	16
Finland	Moderate	16
Philippines	Cold	16
Egypt	Moderate	16
Turkey	Moderate	15
Portugal	Moderate	15
Sweden	Hot	15
Norway	Hot	15
Ireland	Hot	15
Greece	Moderate	14
Pakistan	Cold	14
Saudi Arabia	Moderate	13
Peru	Cold	13
Chile	Moderate	13
Ecuador	Moderate	11
Morocco	Cold	9
Jamaica	Moderate	8
Nigeria	Cold	7
Panama	Moderate	7
Kenya	Cold	6
Luxembourg	Hot	6
Bolivia	Moderate	4
Paraguay	Moderate	3
Uruguay	Moderate	2
Senegal	Cold	2

Australia is another notable exception. It was classified as moderate, but other than the U.S. and the U.K., it was the most popular country to enter. This finding tends to support Davidson (1980) who claimed that market and cultural

similarities will result in a higher level of investment in a country than could be derived from an analysis of the country's market size.

Further examination of the data leads to other interesting observations. It appears that Bolivia, Paraguay and Uruguay, while being rated as moderate countries, do not receive a great deal of foreign activity even in comparison to their colder neighbours such as Brazil and Peru. Thus it would seem that these markets offer firms an opportunity for investment and growth.

Overall, while firms' entry activity in the four clusters follows the expected trend (i.e., less activity as the clusters become colder), the exceptions noted above point to the fact that business people do not rate countries based strictly on objective criteria, but on geocultural distance and other subjective factors. Thus this research can supplement their judgement with the objectivity of the cluster analysis.

5.3.4 Conclusion

The findings of this research tend to support the hypothesis and are in agreement with the results of Goodnow and Hansz. Furthermore, the entry strategies seem to be influenced by the size of the firm. However, within each cluster, some countries received more foreign activity than might be expected from their cluster membership. This indicates that the market selection process does

not always match the entry strategy chosen by a firm - factors such as market size are often given more weight by business people when they are selecting a market than when they are entering it. Therefore, while the focus of this study was method of entry, some of the findings are also relevant to the IMS process.

The final two chapters of this thesis will discuss limitations and implications of the research.

2 OF 2

PM-1 3½"x4" PHOTOGRAPHIC MICROCOPY TARGET
NBS 1010a ANSI/ISO #2 EQUIVALENT

6. LIMITATIONS OF THE RESEARCH

Before the implications of this study are discussed, it is important to note some of the limitations to the research. The first limitation is the use of the cluster analysis technique to classify the countries. Aldenderfer and Blashfield (1984) state that "Most cluster analysis methods are relatively simple procedures that in most cases are not supported by an extensive body of statistical reasoning." (p. 14). This is not to say that cluster analysis has no foundation as a statistical procedure, but only that this limitation must be recognized. In order to increase the rigour of this analysis, significance tests on external variables not used to generate the cluster solution were conducted. Aldenderfer and Blashfield (1984) indicate that this procedure is among the better ways to validate a solution and state that "the value of a cluster solution that has successfully passed external validation is much greater than one which has not." (p. 66). The results of this validation technique supported the four cluster solution chosen as the unit of analysis in this study. This four group solution is further supported by the fact that it makes intuitive sense and is similar to the clusters of Goodnow and Hansz.

Another limitation to this study is the fact that the environment of a foreign market is only one of many factors which affect a firm's choice of entry strategy. As noted previously, product characteristics, the resources available to the firm and home country factors also influence entry decisions (Root, 1987). However, this study is not trying to establish a causal relationship between method of entry

and the environmental characteristics of a market; even though the data suggest a relationship between foreign market environmental factors and entry strategies, this does not necessarily mean that cold countries should be entered only through indirect methods, or that hot countries should be entered through direct investment. Rather this study is meant to provide a reference for firms wishing to enter new markets by indicating both theoretically (the research hypothesis) and empirically (the survey of large Canadian firms) possible entry strategies given the environments of those markets. These strategies can then be tailored to the specific strengths and needs of the firm.

It could also be argued that the sample is not representative of the Canadian business environment. It consists of large firms which can afford to establish subsidiary operations in foreign countries - this option may not be available to small and medium sized firms which make up the majority of businesses in Canada. However, the other strategies included in the questionnaire such as licensing, joint ventures and exporting are available, and thus this study can still provide guidance to smaller firms. Further, part of the intent in a study of this type is to benefit smaller companies by drawing upon the practices of larger ones which may be assumed to be generally more knowledgeable and experienced. In this regard, the results indicate that even large firms, which technically could directly invest anywhere in the world, do not always choose to do so. Rather, their choice of entry method is influenced by various factors, including

the environment of the foreign market being penetrated. Thus smaller firms can learn from the strategies of the large firms surveyed in this study.

It should also be noted that while the response rate to this survey is relatively high (36% for the primary sample; 40% for overall response) there were still a number of firms which did not respond to the survey and this limits the generalizability of the findings. As noted previously, however, the responses were quite representative by company size.

Therefore, there are several limitations to the research, however attempts have been made to lessen their effect, and hopefully none seriously undermine the usefulness of the study.

7. IMPLICATIONS OF THE RESEARCH

7.1 Temperature Gradient Model

The cluster analysis portion of this study should contribute to the International Market Selection (IMS), multinational standardization, and political risk literature.

7.1.1 IMS Process

It was noted previously that a major problem in the initial stage of international market entry is the confusing array of countries and markets that could be entered (Douglas and Craig, 1983). Researchers have developed a variety of screening procedures to help firms select appropriate markets to enter. The cluster analysis program used in this study complements these efforts as it objectively classifies countries according to their environmental market attractiveness. These clusters were tested for significance, supported by external sources and were consistent with those of Goodnow and Hansz. Country membership in these clusters resulted in some interesting observations. Hong Kong, Singapore and Ireland all moved from the moderate cluster in the Goodnow and Hansz research to the hot category in this study due to their export driven economies and their links to large markets in Europe and the Asia Pacific region.

Nine of the 11 (82%) Latin American countries were rated as moderate in this study and three of the countries moved into this cluster from the cold group in the Goodnow and Hansz work, thus underlining the potential and importance of this region for trade and investment.

All of the African countries (except Egypt) were placed in the cold cluster in both this and the previous research. While Africa is starting to become a more important trade area, it still seems to be lagging behind other parts of the world in terms of its attractiveness to foreign firms.

Thus the cluster analysis should contribute to the IMS literature by providing direction to firms wishing to expand internationally, and government agencies whose task it is to provide guidance to firms going abroad.

7.1.2 Multinational Standardization

Walters and Toyne (1989) state: "The development of international product programs characterized by significant uniformity can be an important aspect of competitive advantage to firms undertaking activities overseas." (p. 37).

The clustering technique should be of further benefit to firms wishing to standardize their multinational marketing strategies. The advantages gained from multinational standardization have been discussed at length in the literature

(Buzzell, 1968; Ryans, 1969; Sorenson and Weichmann, 1975; Levitt, 1983; Walters and Toyne, 1989). These benefits can be grouped into three categories:

- 1) **Cost savings** - by offering the same basic product in several markets, a manufacturer can achieve longer production runs and spread research costs over a greater volume thus reducing total unit costs.
- 2) **Consistency with customers** - many companies believe that consistency in product style, packaging, customer service and brand names is a powerful means of increasing sales.
- 3) **Exploiting good ideas** - good marketing ideas are difficult to find and should therefore be used as widely as possible - a successful advertising campaign in one country may be equally effective in a similar market.

The cluster analysis used in this study offers firms a method of grouping countries based on their environmental market similarities. For instance, Australia, Spain and Greece were all clustered in one group. While standardization must be tempered with managerial judgement (in a literal sense, multinational standardization would mean offering identical products at identical prices with identical promotional programs in several different countries), the

cluster analysis suggests that these countries are similar enough that standardized marketing strategies may be employed effectively in each country.

7.1.3 Political Risk Analysis

The research also illustrates the difficulty of defining political stability which has been discussed in the literature (Haendel, West and Meadow, 1975; Taylor, 1983). As mentioned previously, the average number of riots and protest demonstrations were the same in both the cold and moderate clusters and less than the number in the super hot cluster. This was explained by the fact that societies with freedom of expression cannot always constrain political discontent such as riots and demonstrations.

The one indicator that did follow the trend expected was the number of years since independence - countries in the hotter clusters were independent for a longer period of time than the colder ones. However, all the other categories were less clear in their relationship. Thus while political risk analysis was not the major emphasis of this study, the results can be used to support the contention of other researchers as to the difficulty of defining political stability.

Therefore, the cluster analysis section of this research makes a contribution to a variety of areas of international business.

7.2 Survey of the Firms

The survey of the firms also has merit in and of itself. The survey gathered information concerning the methods of operation abroad for Canada's largest firms. Table 11 (p. 83-84) contains data regarding the number of firms entering each of the 48 markets under investigation. Even without comparing the results to the cluster analysis, these data can be used to determine which markets are the most popular for Canadian foreign activity. The U.S., the U.K and Australia are the top three markets, respectively. While these results might not be unexpected due to the economic size and/or cultural similarity of the markets, South Korea and Mexico are the fifth and seventh most popular markets, which might be surprising to some people. Thus the survey itself can be used by small firms wishing to select new markets to enter, by indicating where Canada's largest and most knowledgeable firms do business; and it can be used by large companies to compare their market selection practices with those of their counterparts.

The survey also led to some interesting findings about the international orientation of Canada's largest firms. Thirty-three percent of the firms responding to the survey indicated that they had no international operations. Almost half of these companies were Canadian owned. This is quite a large number considering globalization is considered the key to success in today's economy. Also, almost half of the firms (44%) first entered the countries under investigation between

1980 and 1992, indicating that Canada's largest firms are lagging behind other countries in terms of expanding into new markets.

On a more positive note, a surprising number of foreign-owned firms did have international operations and were knowledgeable of strategic decisions such as entry method, suggesting that these firms are not just branch plants serving the Canadian market. These findings lend support to a new theory of head office-subsidiary relations which suggests that subsidiaries may carry worldwide responsibility and play a leading role in devising and implementing "bits" of the multinational firm's overall strategy (Marcati, 1989).

Methodologically, the survey itself makes a contribution to business research. The relatively high response rate of 40% suggests that when Dillman's Total Design Method (1978) is properly executed, it is effective not only in household questionnaires but also in business surveys. The personalization techniques of signing each letter and identifying each respondent by name, as well as the attention given to detail throughout the survey implementation process as suggested in Dillman's book, no doubt contributed to the success of the survey.

Thus the survey provides benefits both from a methodological perspective and from its results.

7.3 Relating Cluster Analysis to the Survey

Notwithstanding the benefits derived from individual sections of this study, the major emphasis of this research was relating the questionnaire to the cluster analysis.

The data suggest that large firms tend to commit more resources to, and exert greater control over their entry strategies as the country's environment becomes "hotter". The more attractive markets received a higher proportion of direct investment and the less attractive countries were entered through more indirect methods such as exporting via intermediaries. This result supports the research hypothesis and the findings of Goodnow and Hansz. Furthermore, the clusters formed in this study were similar to those of Goodnow and Hansz. These consistencies are quite impressive considering that 20 years elapsed between the two studies, and the studies were conducted in two different countries. This evidence points to a relatively strong relationship between the method of operation and the external environment of a country.

The data were also analyzed by the size of the firm and its sample membership. The data indicate that larger firms (i.e., over \$700 million in sales) tend to be more likely to penetrate a market with direct investment than the firms with sales under \$700 million. This is particularly apparent in the cold cluster and

suggests that the larger firms have the resources to assume the risk of investment oriented entry methods to a larger degree than the "smaller" firms.

Only 20 of the 99 usable responding firms were in the secondary sample and twelve of these firms had expanded to the U.S. only. These service oriented firms were more likely to use intermediaries in penetrating cold markets than the manufacturing firms, while in other clusters they tended to use more direct investment than their manufacturing counterparts. This high degree of investment in the warmer markets is likely due to the structure of most service firms - they generally enter markets through the establishment of a service operation such as chains of retail stores, etc.. Thus, overall, it would appear that service sector firms tend to be less internationally oriented than the manufacturing firms; and when these service firms do expand abroad, they tend to be more risk averse, perhaps because most of their entry methods require investment.

Finally, the data were analyzed with respect to the number of firms penetrating each of the 48 markets under investigation. As mentioned previously, overall the average number of firms entering each cluster declines from super hot to cold (see p. 82). However, the number of firms entering each of the individual countries did not "match" the country's cluster membership. In other words, it might be expected that all hot countries would be penetrated more often than all moderate and cold countries, and all moderate more often than all cold. But as

Table 11 (pp. 83-84) indicates, this relationship did not occur. While the super hot market of the U.S. did receive the most foreign activity, Australia, South Korea and Mexico (moderate countries) were all penetrated more often than many of the hot countries; and Brazil, Indonesia, and India (cold countries) also received more foreign activity than many of the hot and moderate nations.

While it has already been acknowledged that business people do not rate countries based strictly on objective criteria (geocultural distance and other subjective factors influence their opinions), another explanation for the inconsistencies outlined above may be that the indicators used in the IMS process are different than those used in entering the market (MOE) - indicators may be given different weight depending on which of the processes is taking place.

The focus of this study was entry method and the indicators used to generate the clusters originated in another MOE study (Goodnow and Hansz). However, many of these variables are also used in IMS studies (Liander et al., 1967; Johansson and Moinpour, 1977; Leontiades, 1988). Therefore future research should seek to determine if different indicators (or the weight attached to the indicators) should be used for the two processes, rather than using the variables interchangeably as has been done in the past.

7.4 Replication Logic

A final benefit of this study is that it makes a contribution to academic research by replicating a previous research study. Replication is an important area of social science research, as it allows the results of two or three studies to be generalized to a theory (Yin, 1989). Both the cluster formation and the distribution of entry strategies are highly similar between this study and Goodnow and Hansz's work. This lends credibility to the theory that firms commit more resources to and exert greater control over marketing channel activities as the country's environment becomes "hotter" in the Litvak-Banting sense.

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APPENDIX 1
DATA RESULTS FOR COUNTRY INDICATORS

Political Stability

	Riots	Protest Demonstrations	Assassinations	Years Since Independence
<u>OECD</u>				
Australia	0	3	0	90
Austria	0	2	0	73
Belgium	0	2	0	161
Denmark	0	0	0	142
Finland	0	0	0	74
France	4	11	0	199
Germany (W)	0	12	1	42
Greece	2	4	0	164
Ireland	1	2	0	70
Italy	26	27	1	130
Japan	1	1	0	2200
Luxembourg	0	0	0	152
New Zealand	0	0	0	84
Netherlands	3	3	0	412
Norway	0	1	0	86
Portugal	5	4	0	81
Spain	57	35	1	499
Sweden	1	1	0	182
Switzerland	0	0	0	700
Turkey	4	2	0	68
U.K.	9	36	0	190
U.S.	7	51	0	225
<u>Caribbean</u>				
Jamaica	1	0	1	29

Political Stability

	Riots	Protest Demonstrations	Assassinations	Years Since Independence
<u>Africa</u>				
Kenya	0	0	0	28
Morocco	0	0	0	35
Nigeria	0	0	0	31
Senegal	0	0	0	31
Egypt	1	4	1	69
<u>Asia and Pacific</u>				
Hong Kong	0	1	0	0
Singapore	0	0	0	26
South Korea	6	3	0	43
India	9	16	0	44
Indonesia	0	0	0	46
Malaysia	0	0	0	34
Pakistan	26	17	1	44
Phillipines	2	1	0	45
Saudi Arabia	0	0	0	59
<u>Central and South America</u>				
Argentina	1	3	2	175
Bolivia	0	0	0	166
Brazil	5	2	0	169
Chile	0	1	0	181
Ecuador	3	0	0	169
Mexico	4	4	0	181
Panama	2	2	0	88
Paraguay	0	0	0	180
Peru	6	0	0	170
Uruguay	0	0	0	163
Venezuela	0	0	0	180

Market Opportunity

	GNP Annual Growth Rate (%)	Percent Literacy Rate
<u>OECD</u>		
Australia	1.3	99
Austria	1.0	98
Belgium	2.8	98
Denmark	3.4	99
Finland	3.2	100
France	2.0	99
Germany (W)	1.9	99
Greece	0.7	95
Ireland	-0.5	99
Italy	2.5	93
Japan	3.8	99
Luxembourg	2.5	100
New Zealand	1.1	99
Netherlands	1.7	99
Norway	4.4	100
Portugal	3.7	83
Spain	3.1	97
Sweden	1.4	99
Switzerland	3.2	99
Turkey	8.0	70
U.K.	4.3	99
U.S.	4.4	99
<u>Caribbean</u>		
Jamaica	2.3	74

Market Opportunity

	GNP Annual Growth Rate (%)	Percent Literacy Rate
<u>Africa</u>		
Kenya	5.0	47
Morocco	5.7	28
Nigeria	-3.4	30
Senegal	3.8	10
Egypt	3.0	45
<u>Asia and Pacific</u>		
Hong Kong	12.0	75
Singapore	8.6	86
South Korea	10.1	90
India	4.8	36
Indonesia	2.0	62
Malaysia	1.8	65
Pakistan	5.2	26
Phillipines	5.1	88
Saudi Arabia	-10.0	52
<u>Central and South America</u>		
Argentina	5.3	94
Bolivia	2.2	63
Brazil	8.2	76
Chile	5.7	94
Ecuador	1.7	85
Mexico	-3.8	88
Panama	-2.7	90
Paraguay	4.5	81
Peru	8.5	80
Uruguay	4.0	94
Venezuela	2.2	86

Market Opportunity

	GNP/Capita (\$US)	Radios/ 1000	Total Population (000's)
<u>OECD</u>			
Australia	11,203	1259	16,260
Austria	12,136	351	7577
Belgium	11,831	456	9875
Denmark	15,199	415	5180
Finland	14,788	992	4950
France	12,999	896	55,798
Germany (W)	18,225	439	61,829
Greece	4042	408	10,015
Ireland	6207	375	3532
Italy	10,599	261	57,455
Japan	16,289	824	122,626
Luxembourg	19,273	628	366
New Zealand	7734	896	3343
Netherlands	12,049	338	14,716
Norway	17,985	783	4191
Portugal	2882	211	10,388
Spain	6132	295	39,208
Sweden	15,781	875	8393
Switzerland	21,702	401	6593
Turkey	1,269	131	54,168
U.K.	10,861	1157	56,936
U.S.	19,197	2126	246,043
<u>Caribbean</u>			
Jamaica	939	400	2458

Market Opportunity

	GNP/Capita (\$US)	Radios/ 1000	Total Population (000's)
<u>Africa</u>			
Kenya	328	84	23,342
Morocco	601	205	24,976
Nigeria	340	162	111,904
Senegal	519	109	7281
Egypt	658	313	53,348
<u>Asia and Pacific</u>			
Hong Kong	8957	620	5651
Singapore	8475	300	2645
South Korea	2915	952	42,773
India	307	78	816,828
Indonesia	428	118	184,016
Malaysia	1854	431	16,398
Pakistan	351	97	107,467
Phillipines	573	134	63,199
Saudi Arabia	4550	323	14,452
<u>Central and South America</u>			
Argentina	2482	645	31,533
Bolivia	616	587	6448
Brazil	2051	365	150,685
Chile	1370	335	12,638
Ecuador	1023	295	10,232
Mexico	1726	197	83,528
Panama	2157	184	2324
Paraguay	920	165	4386
Peru	1515	247	21,269
Uruguay	2296	592	2976
Venezuela	3217	425	18,776

	<u>Economic Development</u>		
	Male Life Expectancy	Steel Consumption/ Capita (kg)	Exports as a % of GNP
<u>OECD</u>			
Australia	75	354	14
Austria	70	229	31
Belgium	72	244	77
Denmark	72	346	35
Finland	70	365	30
France	72	259	22
Germany (W)	71	457	29
Greece	72	189	13
Ireland	73	120	85
Italy	73	397	21
Japan	75	582	13
Luxembourg	70	244	77
New Zealand	71	268	34
Netherlands	76	263	58
Norway	74	317	30
Portugal	71	151	35
Spain	74	214	17
Sweden	75	421	37
Switzerland	73	394	35
Turkey	62	149	16
U.K.	72	259	23
U.S.	72	417	7
<u>Caribbean</u>			
Jamaica	70	15	31

Economic Development

	Male Life Expectancy	Steel Consumption/ Capita (kg)	Exports as a % of GNP
<u>Africa</u>			
Kenya	53	12	14
Morocco	54	26	24
Nigeria	48	8	18
Senegal	45	10	20
Egypt	60	48	13
<u>Asia and Pacific</u>			
Hong Kong	75	326	126
Singapore	70	735	177
South Korea	64	308	48
India	55	20	6
Indonesia	54	21	25
Malaysia	68	95	69
Pakistan	52	6	12
Phillipines	61	17	20
Saudi Arabia	60	233	35
<u>Central and South America</u>			
Argentina	67	95	11
Bolivia	51	22	15
Brazil	52	99	11
Chile	64	74	41
Ecuador	64	45	21
Mexico	67	93	14
Panama	70	83	6
Paraguay	64	13	27
Peru	57	39	8
Uruguay	70	43	21
Venezuela	66	227	17

Economic Development

	Inhabitants/ Physician	GNP (millions \$US)
<u>OECD</u>		
Australia	571	184,526
Austria	436	91,958
Belgium	371	116,834
Denmark	490	78,732
Finland	492	73,200
France	494	725,346
Germany (W)	375	1,126,846
Greece	405	40,481
Ireland	795	21,922
Italy	349	608,942
Japan	760	1,997,419
Luxembourg	739	7,054
New Zealand	642	25,856
Netherlands	525	177,306
Norway	486	75,375
Portugal	472	29,934
Spain	374	240,417
Sweden	482	132,449
Switzerland	745	143,082
Turkey	1787	68,393
U.K.	670	618,393
U.S.	593	4,723,369
 <u>Carribean</u>		
Jamaica	3238	2308

Economic Development

	Inhabitants/ Physician	GNP (millions \$US)
<u>Africa</u>		
Kenya	15,922	7658
Morocco	19,095	15,023
Nigeria	13,924	38,101
Senegal	16,216	3778
Egypt	908	35,090
<u>Asia and Pacific</u>		
Hong Kong	1558	50,615
Singapore	1192	22,419
South Korea	1508	124,687
India	3040	250,734
Indonesia	14,840	78,673
Malaysia	3646	30,403
Pakistan	3590	37,741
Phillipines	8572	30,213
Saudi Arabia	4321	70,308
<u>Central and South America</u>		
Argentina	648	78,268
Bolivia	2496	3971
Brazil	2402	309,049
Chile	2229	17,308
Ecuador	2196	10,471
Mexico	2646	144,182
Panama	1215	5013
Paraguay	2580	4035
Peru	1821	32,218
Uruguay	551	6833
Venezuela	1271	60409

	<u>Cultural Unity</u>		
	One Religion 75% Dominant ¹	One Ethnic Group 75% Dominant ¹	One Language 75% Dominant ¹
<u>OECD</u>			
Australia	0	1	1
Austria	1	1	1
Belgium	1	0	0
Denmark	1	1	1
Finland	1	1	1
France	1	1	1
Germany (W)	0	1	1
Greece	1	1	1
Ireland	1	1	0
Italy	1	1	1
Japan	1	1	1
Luxembourg	1	0	0
New Zealand	1	0	1
Netherlands	0	1	1
Norway	1	1	1
Portugal	1	1	1
Spain	1	0	0
Sweden	1	1	1
Switzerland	0	0	0
Turkey	1	1	1
U.K.	1	1	1
U.S.	0	1	1
<u>Caribbean</u>			
Jamaica	0	1	1

	<u>Cultural Unity</u>		
	One Religion 75% Dominant¹	One Ethnic Group 75% Dominant¹	One Language 75% Dominant¹
<u>Africa</u>			
Kenya	0	0	1
Morocco	1	1	1
Nigeria	0	0	0
Senegal	1	0	0
Egypt	1	1	1
<u>Asia and Pacific</u>			
Hong Kong	1	1	1
Singapore	0	1	0
South Korea	0	1	1
India	1	0	1
Indonesia	1	0	1
Malaysia	0	0	0
Pakistan	1	0	0
Phillipines	1	1	1
Saudi Arabia	1	1	1
<u>Central and South America</u>			
Argentina	1	1	1
Bolivia	1	0	0
Brazil	1	0	0
Chile	1	1	1
Ecuador	1	0	1
Mexico	1	0	1
Panama	1	0	1
Paraguay	1	1	1
Peru	1	0	1
Uruguay	0	1	1
Venezuela	1	0	1

1 1 = yes; 0 = no

	<u>Legal Barriers</u>			
	Trading Group ¹	Repatriation Policy ²	Foreign Ownership ³	Tariff Protection ⁴
<u>OECD</u>				
Australia	0	9	6	7
Austria	1	9	9	9
Belgium	1	10	10	8
Denmark	1	9	8	8
Finland	1	7	6	6
France	1	9	8	8
Germany (W)	1	10	10	9
Greece	1	6	8	8
Ireland	1	10	10	8
Italy	1	8	9	8
Japan	0	10	8	5
Luxembourg	1	9	10	9
New Zealand	0	8	6	7
Netherlands	1	10	9	8
Norway	1	8	8	9
Portugal	1	8	8	5
Spain	1	8	5	5
Sweden	1	9	7	7
Switzerland	1	10	9	9
Turkey	0	9	9	8
U.K.	1	10	9	8
U.S.	1	9	9	8
<u>Caribbean</u>				
Jamaica	0	8	5	8

<u>Legal Barriers</u>				
	Trading Group ¹	Repatriation Policy ²	Foreign Ownership ³	Tariff Protection ⁴
<u>Africa</u>				
Kenya	0	7	6	8
Morocco	0	3	5	4
Nigeria	0	8	5	8
Senegal	0	9	9	7
Egypt	0	7	7	8
<u>Asia and Pacific</u>				
Hong Kong	0	10	9	10
Singapore	1	10	8	8
South Korea	0	6	7	7
India	0	9	5	7
Indonesia	1	9	5	7
Malaysia	1	9	5	5
Pakistan	0	7	7	7
Phillipines	1	7	7	4
Saudi Arabia	0	10	9	9
<u>Central and South America</u>				
Argentina	1	7	7	7
Bolivia	1	10	7	8
Brazil	1	6	7	8
Chile	1	8	9	8
Ecuador	1	8	8	5
Mexico	1	7	8	7
Panama	0	10	9	4
Paraguay	1	8	10	8
Peru	1	7	5	5
Uruguay	1	9	8	8
Venezuela	1	7	5	7

¹ 1 = member; 0 = not member

² 10 = no restrictions to 0 = no repatriation

³ 10 = 100%; 0 = no ownership

⁴ 10 = little protection; 0 = extensive protection

Physiographic Barriers

	Road km/ 100 sq. km	Railroad km/ 100 sq. km	Total Land Area (sq. km)
<u>OECD</u>			
Australia	11	0	7,617,930
Austria	115	7	82,730
Belgium	342	28	30,230
Denmark	157	6	42,370
Finland	33	2	305,470
France	284	11	545,630
Germany (W)	191	13	244,280
Greece	30	2	130,800
Ireland	134	4	68,890
Italy	100	7	294,020
Japan	293	7	374,744
Luxembourg	198	24	2586
New Zealand	34	2	268,680
Netherlands	319	9	33,940
Norway	26	1	307,860
Portugal	80	4	91,640
Spain	30	3	499,400
Sweden	24	3	411,620
Switzerland	156	13	39,770
Turkey	6	1	770,760
U.K.	150	7	241,590
U.S.	69	3	9,166,600
<u>Carribean</u>			
Jamaica	168	3	10,830

Physiographic Barriers

	Road km/ 100 sq. km	Railroad km/ 100 sq. km	Total Land Area (sq. km)
<u>Africa</u>			
Kenya	11	0	569,250
Morocco	13	0	446,300
Nigeria	12	0	910,770
Senegal	7	0	192,000
Egypt	5	0	995,450
<u>Asia and Pacific</u>			
Hong Kong	111	4	990
Singapore	417	6	622
South Korea	64	3	98,190
India	55	2	2,973,190
Indonesia	7	0	1,826,440
Malaysia	9	0	328,550
Pakistan	13	1	778,720
Phillipines	52	0	298,170
Saudi Arabia	3	0	2,149,690
<u>Central and South America</u>			
Argentina	8	1	2,736,690
Bolivia	4	0	1,084,300
Brazil	17	0	8,456,510
Chile	11	1	748,800
Ecuador	10	0	276,840
Mexico	11	1	1,923,040
Panama	11	0	75,990
Paraguay	6	0	397,300
Peru	4	0	1,280,000
Uruguay	29	2	173,620
Venezuela	9	0	882,050

	<u>Geocultural Distance</u>		
<u>OECD</u>	Landlocked or Coastal ¹	Primary Language Germanic ²	Air Distance from Toronto
Australia	1	1	15,807
Austria	0	1	6936
Belgium	1	0	6041
Denmark	1	1	6269
Finland	1	0	6619
France	1	0	6015
Germany (W)	1	1	6218
Greece	1	0	8117
Ireland	1	1	5266
Italy	1	0	7099
Japan	1	0	10,367
Luxembourg	1	0	6220
New Zealand	1	1	14,127
Netherlands	1	1	6000
Norway	1	1	5952
Portugal	1	0	5741
Spain	1	0	6054
Sweden	1	1	6345
Switzerland	0	1	6456
Turkey	1	0	8530
U.K.	1	1	5729
U.S.	1	1	566
<u>Carribean</u>			
Jamaica	1	1	2856

<u>Geocultural Distance</u>			
	Landlocked or Coastal ¹	Primary Language Germanic ²	Air Distance from Toronto
<u>Africa</u>			
Kenya	1	1	12,190
Morocco	1	0	6244
Nigeria	1	1	8937
Senegal	1	0	6648
Egypt	1	0	9228
<u>Asia and Pacific</u>			
Hong Kong	1	0	12,577
Singapore	1	0	15,015
South Korea	1	0	10,624
India	1	0	11,656
Indonesia	1	0	15,806
Malaysia	1	0	14,816
Pakistan	1	0	10,997
Phillipines	1	0	13,232
Saudi Arabia	1	0	10,664
<u>Central and South America</u>			
Argentina	1	0	8924
Bolivia	0	0	6760
Brazil	1	0	7322
Chile	1	0	8585
Ecuador	1	0	4862
Mexico	1	0	3262
Panama	1	0	3845
Paraguay	0	0	7949
Peru	1	0	6174
Uruguay	1	0	9011
Venezuela	1	0	3868

¹ 1 = coastal; 0 = landlocked

² 1 = yes; 0 = no

External Variables

	Political Stability	Market Opportunity	Economic Development	Cultural Unity
	Armed Attacks	TV/1000	Energy Consumption/ capita (kg)	% Urban Population
<u>OECD</u>				
Australia	2	472	6865	86
Austria	0	323	4037	55
Belgium	0	301	5609	95
Denmark	1	386	5316	84
Finland	0	372	5698	62
France	19	332	3811	73
Germany (W)	6	379	5603	94
Greece	13	174	2590	58
Ireland	5	216	3644	56
Italy	91	255	3503	72
Japan	3	585	3652	77
Luxembourg	0	253	11,253	78
New Zealand	2	358	4563	84
Netherlands	6	327	6869	89
Norway	0	348	6938	71
Portugal	10	157	1385	30
Spain	54	322	2093	91
Sweden	0	393	4991	83
Switzerland	1	411	3794	61
Turkey	15	165	1008	53
U.K.	296	534	5011	92
U.S.	12	813	9721	74
<u>Caribbean</u>				
Jamaica	0	105	934	54

	<u>External Variables</u>			
	Political Stability	Market Opportunity	Economic Development	Cultural Unity
	Armed Attacks	TV/1000	Energy Consumption/ capita (kg)	% Urban Population
<u>Africa</u>				
Kenya	0	5	102	19
Morocco	0	54	335	43
Nigeria	1	6	166	28
Senegal	1	33	139	36
Egypt	9	83	668	45
<u>Asia and Pacific</u>				
Hong Kong	0	232	1894	93
Singapore	0	183	4776	100
South Korea	1	188	1779	65
India	2	7	272	25
Indonesia	0	39	267	22
Malaysia	0	113	1283	35
Pakistan	10	15	248	28
Phillipines	12	36	251	41
Saudi Arabia	0	269	6335	72
<u>Central and S. America</u>				
Argentina	20	214	1912	85
Bolivia	0	76	300	49
Brazil	1	188	776	71
Chile	0	164	918	82
Ecuador	0	73	624	52
Mexico	15	117	1682	70
Panama	0	161	614	51
Paraguay	0	23	239	43
Peru	1	84	567	69
Uruguay	0	171	660	84
Venezuela	1	141	2925	82

	<u>External Variables</u>		
	Legal Barriers	Physiographic Barriers	Geocultural Distance
	Discrimination against foreign investors ¹	Population/sq. mi.	Judeo-Protestant culture dominant ²
<u>OECD</u>			
Australia	8	5	1
Austria	9	234	1
Belgium	10	838	1
Denmark	10	326	1
Finland	7	38	1
France	9	264	1
Germany (W)	10	644	1
Greece	8	197	1
Ireland	10	130	1
Italy	9	494	1
Japan	8	853	0
Luxembourg	10	367	1
New Zealand	7	32	1
Netherlands	10	1022	1
Norway	9	33	1
Portugal	8	292	1
Spain	6	201	1
Sweden	10	48	1
Switzerland	8	414	1
Turkey	8	180	0
U.K.	9	602	1
U.S.	10	68	1
<u>Caribbean</u>			
Jamaica	8	579	0

	Legal Barriers Discrimination against foreign investors¹	Physiographic Barriers Population/ sq. mi.	Geocultural Distance Judeo-Protestant culture dominant²
<u>Africa</u>			
Kenya	9	104	0
Morocco	6	145	0
Nigeria	6	314	0
Senegal	9	96	0
Egypt	9	138	0
<u>Asia and Pacific</u>			
Hong Kong	10	14,073	0
Singapore	9	11,811	0
South Korea	7	1125	0
India	5	644	0
Indonesia	5	248	0
Malaysia	5	129	0
Pakistan	7	346	0
Phillipines	8	546	0
Saudi Arabia	9	19	0
<u>Central and South America</u>			
Argentina	7	30	1
Bolivia	7	15	1
Brazil	6	46	1
Chile	9	43	1
Ecuador	9	93	1
Mexico	8	110	1
Panama	9	77	1
Paraguay	9	28	1
Peru	8	43	1
Uruguay	8	44	1
Venezuela	8	53	1

¹ 10 = no discrimination

² 1 = yes; 0 = no

Appendix 2
Industry Sectors

Primary Sample

Aerospace
Auto Manufacturing
Beverages
Chemicals
Textiles
Construction Materials
Consumer Products
Diversified
Diversified Manufacturing
Electrical
Food Processing
Forest Products
Heavy Manufacturing
High Technology
Light Manufacturing
Mining
Metals
Oil and Gas
Pharmaceuticals
Pipelines
Steel
Telecom
Transportation

Secondary Sample

Agriculture
Auto Wholesaling
Construction and Engineering
Food & Hospitality
Health Care
Leisure
Media & Communication
Real Estate
Retailing
Trading
Utility
Wholesaling

APPENDIX 3
SURVEY INSTRUMENT

The
International
Business Study Group

School of Business
Carleton University

Survey of Major Firms' Methods of Operation Abroad

This study seeks to determine the main strategic method of operation (e.g., exporting, licensing, joint venture, fully owned subsidiary) used currently by large Canada-based firms in various countries around the world.

If you would like to receive a summary of the results as soon as available, please check here: ☐
(Make sure you provide your name and address on a separate sheet or business card, these will be forwarded to us separately from the questionnaire to maintain the anonymity of results.)

Please answer all the questions, especially Question 2 which is the main part of the survey
We appreciate your help.

To return the completed questionnaire, use the self-addressed envelope provided or mail to
Business Consulting Program
School of Business
Carleton University
Ottawa, Ontario
K1S 5B6

Tel. (613) 788-2388
Fax (613) 788-2532

serial no (This is used only to check your
company off the mailing list once the questionnaire is returned
This cover page will be discarded upon return and respondent
will never be identified on the questionnaire itself)

The
International
Business Study Group

School of Business
Carleton University

Survey of Major Firms' Methods of Operation Abroad

Note: If yours is a foreign-owned or controlled company, please refer only to operations of the Canadian firm (i.e., not those of the parent company worldwide).

- 1** The main part of the survey refers to the **product or service line** of your firm which **contributes the most to foreign sales**. By product/service 'line' we refer to groups of related products, services, store chains, etc., however these are expressed or defined at your own firm (i.e. lines, 'families' or groups, SBUs, divisions, operating subsidiaries, etc.).

Please name here the product or service line which contributes the most to your company's foreign (i.e. outside of Canada) sales:

--

- 2** On the next two pages is a matrix with a list of countries in the first column. **For the major product or service line named in question 1**, please:

2a indicate whether your firm currently does business in each of the countries listed;

2b indicate the year when your firm first started doing business there;

2c check off the **current** method of operation (i.e., *not* how you *originally* entered a given country, if different) for each of the countries in which this line is sold, under the appropriate column from the options shown across the top.

Please note:

This is the most important part of the survey. Because terms often mean different things to different people, we would appreciate it if you take a moment to review the following definitions for the terms used.

- **Indirect exports:** exporting via independent intermediaries located in Canada, such as agents or trading houses (i.e., no direct contact with intermediaries or customers in the foreign country)
- **Direct exports to intermediaries/customers abroad:** exporting from Canada, or another of your operations outside the target country, to intermediaries or customers located in the foreign country
- **Sales/marketing branch abroad:** exporting to your own sales or marketing subsidiary located in the foreign country
- **Licensing & franchising:** contractual arrangement between your firm and a partner(s) located in the foreign country; product/service produced in the foreign country
- **Contract manufacturing:** product produced for your firm by a firm located in the foreign country
- **Joint venture:** shared equity undertaking in the foreign country between your firm and a partner(s) in the foreign country; product/service produced in the foreign country
- **Fully owned foreign operation:** manufacturing, assembly, or service establishments in the case of service firms, in the foreign country at fully-owned facilities
- **Other:** methods of operation not covered above - please specify

2a

Is the major product/service line sold in this country?

2b

When did sales start?

2c

For those countries where the major product/service line is being sold, please simply check [✓] your **current** method of operation. (check more than one if appropriate)

Country	✓ if yes	year 19—	Indirect export (home-based distributors)	Direct export		Licensing & franchising	Contract manufacturing	Joint venture	Fully owned operation abroad	Other - please specify (use additional sheets if necessary)
				To intermediaries or customers abroad	Sales/marketing branch abroad					
U.S.A.										
Japan										
Australia										
New Zealand										
Austria										
Belgium										
Denmark										
Finland										
France										
W. Germany*										
Greece										
Ireland										
Italy										
Luxembourg										
Netherlands										
Norway										
Portugal										
Spain										
Sweden										
Switzerland										
Turkey										
U.K.										

* Although West and East Germany were unified in 1990, please respond for the "West" part of Germany only

reminder

- Indirect exports - via independent intermediaries located in Canada
- Direct exports - to independent intermediaries or customers located in the foreign country
- Sales or marketing subsidiary - direct exports to your own branch in the target country
- Licensing & franchising - contractual arrangement with partner(s) in the foreign country
- Contract manufacturing - product produced for you by a firm in the foreign country
- Joint venture - shared equity with a partner(s) in the foreign country
- Fully owned operation - 100%-owned facilities in the foreign country (manufacturing/assembly/service establishments/etc.)
- Other - please specify

2a

Is the major product/service line sold in this country?

2b

When did sales start?

2cFor those countries where the major product/service line is being sold, please simply check [☒] your current method of operation. (check more than one if appropriate)

Country	<div style="text-align: center;"> ☒ if yes </div>	<div style="text-align: center;"> year 19— </div>	Indirect export (home-based distributors)	Direct export		Licensing & franchising	Contract manufacturing	Joint venture	Fully owned operation abroad	Other - please specify (use additional sheets if necessary)
				To intermediaries or customers abroad	Sales/marketing branch abroad					
Jamaica										
Argentina										
Brazil										
Bolivia										
Chile										
Ecuador										
Mexico										
Panama										
Paraguay										
Peru										
Uruguay										
Venezuela										
Egypt										
Saudi Arabia										
Morocco										
Kenya										
Nigeria										
Senegal										
India										
Pakistan										
Hong Kong										
Indonesia										
Malaysia										
Philippines										
Singapore										
South Korea										

reminder

- Indirect exports - via independent intermediaries located in Canada
- Direct exports - to independent intermediaries or customers located in the foreign country
- Sales or marketing subsidiary - direct exports to your own branch in the target country
- Licensing & franchising - contractual arrangement with partner(s) in the foreign country
- Contract manufacturing - product produced for you by a firm in the foreign country
- Joint venture - shared equity with a partner(s) in the foreign country
- Fully owned operation - 100%-owned facilities in the foreign country (manufacturing/assembly/service establishments/etc.)
- Other - please specify

Lastly, please complete the following questions to help us interpret the results of the survey. Your answers will remain totally anonymous.

- 3** For the **major product or service line** in the previous questions, please provide the total (including Canada) and foreign (excluding Canada) sales for the latest completed fiscal year:

Total sales (to nearest '000) \$ _____ Currency: C\$ ☐ U.S.\$ ☐

Foreign sales (to nearest '000) \$ _____ Currency: C\$ ☐ U.S.\$ ☐

Fiscal year end month/year _____

- 4** Unlike the previous questions, this section refers to your **entire company** (Canada-based part, if foreign owned), not only the major product/service line.

	(last completed fiscal year)		
	Total Company	Total Foreign	
Sales (to nearest '000)	\$ _____	_____	Currency: C\$ ☐ U.S.\$ ☐
Profits (to nearest '000)	\$ _____	_____	Currency: C\$ ☐ U.S.\$ ☐
Assets (to nearest '000)	\$ _____	_____	Currency: C\$ ☐ U.S.\$ ☐
Employees	number _____	_____	
R&D	% of sales _____	_____	

Your position in the company (person who answered the questionnaire - President, Vice President, Director-International Marketing...): _____

- Please ensure that all questions have been answered--but return the questionnaire even if for some reason you are unable to fill it all out.
- If you would like a summary of the survey results once available, remember to check the box on the cover of the questionnaire.
- If you would like to comment on the survey, please feel free to do so; we will read and take your comments into account.

Thank you for your cooperation - we appreciate your help!

APPENDIX 4

LETTERS

[date]

[Mr. first/last name]
[title]
[company]
[city & province]

Dear Mr. [last name],

In a few days you will be contacted about a research project which is being carried out with the cooperation of the International Business Study Group at Carleton University. I am writing in advance to inform you about the study and kindly ask for your cooperation.

The study will provide information about the best ways of doing business abroad by comparing the practices of large companies with the market characteristics of specific countries. The part in which we ask you to participate is a survey of the top-500 firms in Canada about their methods of operation in foreign countries.

Another part, done internally by us, involves application of an innovative "temperature gradient" model which classifies countries as having a hot, moderate, or cold business climate. This is a first-ever application in Canada of a method which, though first developed by Canadians, has only been applied in the U.S.

The survey will be carried out by Mr. Derek Jansen, a graduate student in our Master of Management Studies (MMS) program. Unlike other master's programs in business, the MMS requires a thesis on a topic of applied interest. Mr. Jansen is working on this study as part of his thesis under supervision by myself and a thesis committee.

The questionnaire you will receive is very brief and we will be glad to provide you with a summary of our results. As this project is related to a theme of current and significant interest, international competitiveness, and its results will be of direct interest to business, we hope you will agree to participate.

Please do not hesitate to contact me if you have any questions. We thank you very much in advance for your cooperation.

Sincerely,

Dr. Nicolas Papadopoulos
Professor
Director, International
Business Study Group

[date]

[Mr. first/last name]
[title]
[company]
[city & province]

Dear Mr. [last name],

Following up on the letter sent to you a few days ago by Professor N. Papadopoulos, of Carleton's International Business Study Group, I am enclosing the survey questionnaire for our project on business methods of international operation.

As noted in the previous letter, the questionnaire is very brief and will take only a few minutes to complete. Your response will be most appreciated as it is crucial to the success of the study and the completion of my Master's thesis. If you feel it should be answered by someone else in your company, please do not hesitate to pass it on to him or her.

As a reminder, we are surveying Canada's top-500 firms to determine their methods of operation abroad (e.g., exporting, joint ventures, licensing). The findings will be compared against a model which classifies countries as having a hot, moderate, or cold business climate. The overall results will be of interest to business and I will be glad to provide you with a summary (if you would like to receive one, just check the box on the questionnaire cover).

A postage-paid, pre-addressed return envelope is included. Your replies will be kept strictly confidential and analysed without identification. Returned envelopes will be opened by a third party, the Business Consulting Program at Carleton, and the questionnaires will be forwarded to me only for coding, inputting to the computer and analysis.

Please complete the survey - your help is needed to ensure a representative sample and enable us to produce useful results for business and research. [Answering Question 2 is particularly crucial.]

Knowing the heavy demands on your time, we appreciate your help in this project very much. If you have any questions or comments, please do not hesitate to contact me or Dr. Papadopoulos (telephone and fax numbers below).

Sincerely,

Derek Jansen
Graduate student
Master of Management Studies program
School of Business

date

1
2
3
4

***** REMINDER *****

Will you please help us complete the study on international methods of operation of Canada's top-500 firms? The study is of direct interest to business and we will provide you with a summary on request (just check the box on the questionnaire cover).

Dear...

About three weeks ago we asked you to participate in a survey which aims to examine the relationship between the market climate of selected foreign countries and the methods of operation of large Canada-based firms in those countries.

If you have already completed and returned the questionnaire, please accept our sincere thanks and ignore this reminder notice.

If not, could we kindly ask you to complete and return the questionnaire as soon as possible? Your response is crucial to the success of the study and the completion of my Master's thesis. A second copy and return envelope are enclosed for your convenience.

The questionnaire is very brief and takes only a few minutes to complete. If you feel it should be answered by someone else in your company, please do not hesitate to pass it on to him or her. Your replies will be kept strictly confidential and analysed without identification.

Knowing how busy you are, we appreciate your help in this project very much. If you have any questions or comments, please do not hesitate to contact me or Dr. N. Papadopoulos, my thesis supervisor (telephone and fax numbers below).

Sincerely,

Derek Jansen
Graduate student
Master of Management Studies program
School of Business

APPENDIX 5 **Clusters**

<u>Group 1</u> "Super Hot"	<u>Group 2</u> "Hot"	<u>Group 3</u> "Moderate"	<u>Group 4</u> "Cold"
United States	Belgium Denmark France Germany (W)* Hong Kong Ireland Italy Japan Luxembourg Netherlands Norway Singapore Sweden Switzerland United Kingdom	Argentina Australia Austria Bolivia Chile Ecuador Egypt Finland Greece Jamaica Mexico New Zealand Panama Paraguay Portugal Saudi Arabia South Korea Spain Turkey Uruguay Venezuela	Brazil Indonesia India Kenya Malaysia Morocco Nigeria Pakistan Peru Philippines Senegal

* Although West and East Germany were unified in 1990, this study examined the "West" part of Germany only.

Appendix 6

External Variables

- 1) **Political Stability - Armed attacks** - an act of violent political aggression carried out by an organized group to destabilize the power of another group.
- 2) **Market Opportunity** - TV/1000
- 3) **Economic Development** - Energy consumption/capita (kg)
- 4) **Cultural Unity** - Percent urban population
- 5) **Legal Barriers** - Legal discrimination against foreign investors (10=no discrimination; 0=no foreign investment)
- 6) **Physiographic Barriers** - Population/sq. km.
- 7) **Geocultural Distance** - Judeo-Protestant culture dominant (1=yes; 0=no)

APPENDIX 7
Percentage Distribution of Market Entry Strategies
by Country Cluster (Secondary Sample Firms; n=20)

	<u>Percent of Firms Using Strategy</u>			
	Super Hot	Hot	Moderate	Cold
Fully Owned Operation	52.9	22.0	13.5	0
Export via Sales/Marketing Branch Abroad	0	7.3	2.7	0
Joint Venture	5.9	9.8	8.1	0
Contract Manufacturing	0	0	0	0
Licensing/ Franchising	5.9	0	5.4	4.2
Exports to Intermediaries/ Customers Abroad	29.4	61.0	70.3	95.8
Indirect Exports	5.9	0	0	0

APPENDIX 8

Entry Strategies into Individual Countries

The following abbreviations of entry strategy correspond to the following:

Fully owned operation

Export via sales/marketing branch abroad

Joint Venture

Contract Manufacturing

Licensing Agreement

Exports to intermediaries/customers abroad

Indirect exports

			<u>Number of Firms in Country</u>
Japan	Fully owned	5.6	36
	Export-sales branch	19.4	
	Joint venture	11.1	
	Contract manufacturing	0	
	License	2.8	
	Intermediaries/customers	58.3	
	Indirect	2.8	
Australia	Fully owned	12.2	41
	Export-sales branch	24.4	
	Joint venture	4.9	
	Contract manufacturing	0	
	License	4.9	
	Intermediaries/customers	51.2	
	Indirect	2.4	
New Zealand	Fully owned	12.5	24
	Export-sales branch	12.5	
	Joint venture	4.2	
	Contract manufacturing	0	
	License	4.2	
	Intermediaries/customers	58.3	
	Indirect	8.3	

			<u>Number of Firms in Country</u>
Austria	Fully owned	6.3	16
	Export-sales branch	25.0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	62.5	
	Indirect	0	
Belgium	Fully owned	7.1	28
	Export-sales branch	25.0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	67.9	
	Indirect	0	
Denmark	Fully owned	11.8	17
	Export-sales branch	23.5	
	Joint venture	0	
	Contract manufacturing	0	
	License	5.9	
	Intermediaries/customers	58.8	
	Indirect	0	
Finland	Fully owned	6.3	16
	Export-sales branch	18.8	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	68.8	
	Indirect	6.3	
France	Fully owned	22.2	36
	Export-sales branch	13.9	
	Joint venture	5.6	
	Contract manufacturing	2.8	
	License	0	
	Intermediaries/customers	52.8	
	Indirect	2.8	

			<u>Number of Firms in Country</u>
W. Germany	Fully owned	12.2	33
	Export-sales branch	15.2	
	Joint venture	3.0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	66.6	
	Indirect	3.0	
Greece	Fully owned	0	14
	Export-sales branch	14.3	
	Joint venture	7.1	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	71.4	
	Indirect	7.1	
Ireland	Fully owned	13.7	15
	Export-sales branch	6.7	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	73.3	
	Indirect	6.7	
Italy	Fully owned	6.4	31
	Export-sales branch	19.3	
	Joint venture	6.5	
	Contract manufacturing	3.2	
	License	3.2	
	Intermediaries/customers	58.1	
	Indirect	3.2	
Luxembourg	Fully owned	0	6
	Export-sales branch	50.0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	33.3	
	Indirect	16.7	

			<u>Number of Firms in Country</u>
Netherlands	Fully owned	13.3	30
	Export-sales branch	20.0	
	Joint venture	3.3	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	63.3	
	Indirect	0	
Norway	Fully owned	20.0	15
	Export-sales branch	26.7	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	46.7	
	Indirect	6.7	
Portugal	Fully owned	26.7	15
	Export-sales branch	13.3	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	53.3	
	Indirect	6.7	
Spain	Fully owned	13.6	22
	Export-sales branch	13.6	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	63.6	
	Indirect	4.5	
Sweden	Fully owned	13.3	15
	Export-sales branch	20.0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	60.0	
	Indirect	6.7	

			<u>Number of Firms in Country</u>
Switzerland	Fully owned	27.3	22
	Export-sales branch	22.7	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	40.9	
	Indirect	4.5	
Turkey	Fully owned	0	15
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	93.3	
	Indirect	6.7	
U.K.	Fully owned	37.2	43
	Export-sales branch	14.0	
	Joint venture	0	
	Contract manufacturing	0	
	License	2.3	
	Intermediaries/customers	44.2	
	Indirect	2.3	
Jamaica	Fully owned	12.5	8
	Export-sales branch	0	
	Joint venture	12.5	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	75.0	
	Indirect	0	
Argentina	Fully owned	4.8	21
	Export-sales branch	14.3	
	Joint venture	9.5	
	Contract manufacturing	0	
	License	9.5	
	Intermediaries/customers	57.1	
	Indirect	4.8	

			<u>Number of Firms in Country</u>
Brazil	Fully owned	7.4	27
	Export-sales branch	3.7	
	Joint venture	11.1	
	Contract manufacturing	0	
	License	7.4	
	Intermediaries/customers	59.3	
	Indirect	11.1	
Bolivia	Fully owned	0	4
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	100	
	Indirect	0	
Chile	Fully owned	0	13
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	100	
	Indirect	0	
Ecuador	Fully owned	0	11
	Export-sales branch	18.2	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	72.7	
	Indirect	9.1	
Mexico	Fully owned	6.5	31
	Export-sales branch	12.9	
	Joint venture	6.5	
	Contract manufacturing	0	
	License	9.7	
	Intermediaries/customers	61.3	
	Indirect	3.2	

			<u>Number of Firms in Country</u>
Panama	Fully owned	0	7
	Export-sales branch	14.3	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	85.7	
	Indirect	0	
Paraguay	Fully owned	0	3
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	100	
	Indirect	0	
Peru	Fully owned	0	13
	Export-sales branch	7.7	
	Joint venture	7.7	
	Contract manufacturing	0	
	License	7.7	
	Intermediaries/customers	76.9	
	Indirect	0	
Uruguay	Fully owned	33.3	3
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	67.7	
	Indirect	0	
Venezuela	Fully owned	0	22
	Export-sales branch	9.1	
	Joint venture	13.6	
	Contract manufacturing	0	
	License	9.1	
	Intermediaries/customers	63.6	
	Indirect	4.5	

			<u>Number of Firms in Country</u>
Egypt	Fully owned	0	16
	Export-sales branch	6.3	
	Joint venture	12.5	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	81.3	
	Indirect	0	
Saudi Arabia	Fully owned	0	13
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	84.6	
	Indirect	15.4	
Morocco	Fully owned	0	9
	Export-sales branch	11.1	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	77.8	
	Indirect	11.1	
Kenya	Fully owned	0	6
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	83.3	
	Indirect	16.7	
Nigeria	Fully owned	0	7
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	85.7	
	Indirect	14.3	

			<u>Number of Firms in Country</u>
Senegal	Fully owned	0	2
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	100	
	Indirect	0	
India	Fully owned	4	25
	Export-sales branch	4	
	Joint venture	8	
	Contract manufacturing	0	
	License	4	
	Intermediaries/customers	76	
	Indirect	4	
Pakistan	Fully owned	7.1	14
	Export-sales branch	0	
	Joint venture	0	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	85.7	
	Indirect	7.1	
Hong Kong	Fully owned	3.7	27
	Export-sales branch	14.8	
	Joint venture	3.7	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	70.4	
	Indirect	7.4	
Indonesia	Fully owned	7.4	27
	Export-sales branch	3.7	
	Joint venture	7.4	
	Contract manufacturing	0	
	License	11.1	
	Intermediaries/customers	63.0	
	Indirect	7.4	

			<u>Number of Firms in Country</u>
Malaysia	Fully owned	9.5	21
	Export-sales branch	9.5	
	Joint venture	4.8	
	Contract manufacturing	4.8	
	License	0	
	Intermediaries/customers	66.6	
	Indirect	4.8	
Philippines	Fully owned	0	16
	Export-sales branch	0	
	Joint venture	6.3	
	Contract manufacturing	0	
	License	6.3	
	Intermediaries/customers	87.5	
	Indirect	0	
Singapore	Fully owned	5.3	19
	Export-sales branch	5.3	
	Joint venture	5.3	
	Contract manufacturing	0	
	License	0	
	Intermediaries/customers	84.2	
	Indirect	0	
South Korea	Fully owned	0	34
	Export-sales branch	0	
	Joint venture	11.8	
	Contract manufacturing	0	
	License	5.9	
	Intermediaries/customers	73.5	
	Indirect	8.8	

END

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