

FOREIGN MARKET ENTRY DECISION-MAKING: WHAT DO WE KNOW SO FAR?

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Abstract

The paper proposes a systematic review of the literature on foreign market entry decision-making. The decision-making process in this area is particularly challenging for companies, given the lack of familiarity with an international environment characterized by increasing complexity and, therefore, a high level of uncertainty. The article adopts a systematic approach to reviewing the literature, to investigate the state of research on the topic, as well as the main theoretical approaches and decision-making processes for entering foreign markets. A total of 64 articles published in international business and international marketing journals are examined. The paper proposes a descriptive and thematic analysis of the articles and highlights the main theoretical approaches adopted, the declinations of the concept of uncertainty, and the entry modes as decision-making contexts. Finally, the paper suggests future directions for research.

Keywords: Foreign market entry; Decision-making; uncertainty; Entry modes; International business; International marketing.

1. Introduction

Foreign market entry is a fundamental issue for international strategic marketing. Entrepreneurs and managers find themselves making important decisions in this area, which may concern the choice of markets to enter (which markets), the geographical concentration or diversification (how many markets), the entry modes, defined in terms of competitive strategy for the foreign markets (how to compete) (Kogut, 2002). Foreign market entry decision-making can take on particular importance for internationalization processes. The decision-making process can be

challenging due to the uncertainty that characterizes the international expansion of firms, as the foreign environment can be more complex and less familiar than the national one (Cavusgil & Godiwalla, 1983), especially in the case of SMEs (Milanesi et al., 2020). The condition of uncertainty that characterizes decision-making differs from the condition of “risk”, which implies that the probabilities of outcomes are known and the optimal option can be calculated (Knight, 1921). Uncertainty can have multiple sources, such as the introduction of new products, services or the founding of a new venture (McMullen and Shepherd, 2006), or rapid and unpredictable changes in technology, people, markets, quality, and schedules (De Meyer et al., 2002; Artinger et al., 2015). Uncertainty is related to entrepreneurial decision-making, often characterized by limited information and a lack of data from past experience (Busenitz and Barney, 1997).

Uncertainty is acknowledged as the primary characteristic of the international expansion of firms (Mascarenhas, 1982). Sources of uncertainty for internationalizing firms are related to unfamiliarity with operating in a new environment, foreign exchange, different cultures, political risk, labor restrictions, infrastructural difficulties (Mascarenhas, 1982; Johanson and Vahlne, 1977; 2009). The decision to internationalize and the decisions concerning the foreign market entry modes have been described as procedures characterized by great uncertainty (Acedo and Jones, 2007; Liesch et al., 2011).

Decision-making under uncertainty can refer to the adoption of rather simple decision-making rules, namely heuristically-based decisions (Guercini, 2019; Guercini and Runfola, 2020). An example is given by the analysis of foreign markets that can follow rules of thumb such as imitation of competitors; previous experiences of the organization and decision-makers; the definition of thresholds on key factors (cut-off). Heuristics originate in the cognitive science domain and refer to rules that arise when information, time, and process capabilities are limited. Thus, heuristics are rules of thumb that decision-makers rely on to simplify complex problems and/or information processing tasks (Newell and Simon, 1972). The adoption of heuristics for decision-making is debated, as it can lead to biases (Tversky and Kahneman, 1974), or it is capable of effective solutions without using a lot of information and processing (Gigerenzer, 1996; Gigerenzer et al., 1999). Thus, the adoption of heuristically-based decisions is particularly true for foreign market entry decision-making, as shown by Guercini and Milanesi (2020) who investigate heuristics in international business and show that foreign market entry is the main area in which simple rules are adopted, including simple rules such as imitative behavior, previous experience, anchoring heuristics or improvisation. Starting from this background, this paper intends to explore the state of the literature on the dissemination and effectiveness of decision-making rules in relation to foreign market entry. In particular, the article proposes a systematic review of the literature on foreign market entry decision-making, based on contributions published in the top-ranked journals of international business (IB) and international marketing (IM). The review allows a deeper understanding of how decisions are made, whether heuristics are adopted and which type, and their outcomes of decision-making. Additionally, the paper argues that studying foreign market entry decision-making improves the understanding of how managers and entrepreneurs weigh different entry modes and adjust their choices over time. To this aim, the paper is structured as follows. In the next sections, the research questions, the methodology, and the main results of the systematic literature review are presented; the paper ends with a discussion of the results and future directions of the research.

2. Methodology

The paper proposes a structured systematic review of the literature in order to investigate the current state of research on foreign market entry decision-making. A review of the literature that follows a structured systematic approach must have the characteristics of objectivity, transparency, and replicability (Tranfield et al., 2003). More specifically, a systematic review adopts reproducible methods and procedures to identify, select, and analyze prior studies and develop a research agenda (Paul and Criado, 2020). To this end, the systematic review followed several phases (Schmeisser, 2013; Looock and Hinnen, 2015). The review began with a “planning” phase aimed at establishing a procedure for developing a transparent, replicable, and systematic research process. In this phase, the following research questions were defined:

RQ1. *What is the current state of research on foreign market entry decision-making?*

RQ2. *What are the main theoretical approaches and the decision-making processes emerging from the literature?*

The systematic review of the literature then continued with the “research” phase, in which the Scopus database was adopted as the data source, since Scopus is the largest abstract and citation database of peer-reviewed literature and allows a clear and replicable keywords search. The initial identification of the articles was conducted using a keyword search, consistent with the aforementioned objective of the present study. The following keywords were used: “market entry”, “entry mode”, “entry strategy”. These keywords were combined, through the Boolean AND connector, with other keywords – “decision making”, “uncertainty” and “cognition” - for a total of 9 search strings, limited to the title of the article, keywords, and abstract. The research has not been limited to any specific time period in order to obtain a broad vision on the topic and its development in a chronological sense.

The keyword search focused on the top-ranked international academic journals dealing with IB and IM topics, thus excluding books, essays, and conference proceedings. In this sense, journal quality was taken as an indicator of study quality (Narayanan et al., 2011). For the selection of journals, we relied on studies conducted by Dubois and Reeb (2000), Griffith et al. (2008), and Xu et al. (2008), which identified six leading journals: Journal of International Business Studies (JIBS), Management International Review (MIR), Journal of World Business (JWB), International Marketing Review (IMR), Journal of International Marketing (JIMktg) and International Business Review (IBR). Based on Tüselmann et al. (2016), the Journal of International Management (JIM) and Global Strategy Journal (GSJ) were also included. The keyword search in the 8 selected journals resulted in a total of 69 articles. Each article was read independently by the authors in order to verify that the subject actually concerned the foreign market entry decision-making, and therefore the actual adherence to the research objectives and eligibility of articles. At the end of this check, 64 articles were included in the review.

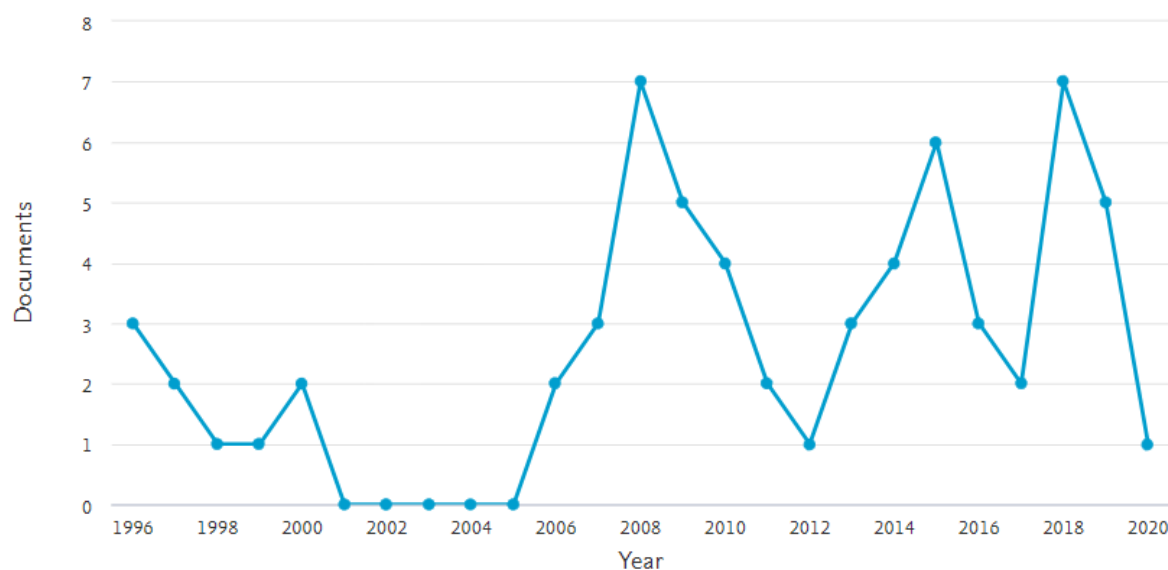
The systematic review of the literature ended with a “reporting” phase concerning the descriptive and thematic analysis of the selected articles. Such an analysis is developed in the next paragraph. The descriptive analysis is aimed at providing a broad view of the studies on foreign market entry decision-making, in terms of temporal trend, articles by journal and most influential articles (citation analysis). The thematic analysis includes a deeper examination of the selected articles in terms of theoretical approaches to the study of foreign market entry decision-making, how uncertainty is addresses and the main entry modes as decision-making contexts.

3. Analysis of the selected articles

3.1. Temporal trend and most influential articles

The descriptive analysis proposed in this section allows answering to the first research question of the study concerning the current state of research on foreign market entry decision-making. The 64 articles resulting from the systematic review of the literature (see the Appendix) were published in the period 1996-2020 (the review stopped in January 2020). The temporal trend of the publications is shown in Figure 1.

Figure 1 – Articles by year



There have been peaks in more recent years, in particular in 2008, 2015, and 2018. This can be attributed to a renewed interest in decision-making issues, following the change in the international scenario, with the opening of new markets and the emergence of new ways of approaching foreign markets. Table 1 shows the distribution of the articles in the 8 selected journals. 64% of the articles are published in two journals: Journal of International Business Studies and International Business Review.

Table 1 – Articles by journal

Journal	Articles
Journal of International Business Studies	23
International Business Review	18
International Marketing Review	8
Journal of World Business	5
Management International Review	5
Journal of International Management	4
Global Strategy Journal	1
Journal of International Marketing	0
Tot.	64

As regards the type of articles, only one (Chi et al., 2019) is a review concerning the real options theory in IB, while the remaining are empirical articles. Additionally, an analysis of the

number of citations received by the selected articles allows us to identify some of the most “influential” articles. The total citations of the 64 articles are 4114. The article that has received the most citations so far is that of Johanson and Vahlne, with 1663 citations, published in 2009 in the Journal of International Business Studies, in which the authors revise their well-known Uppsala model of internationalization published in the same journal in 1977. Other 8 articles exceed 100 citations. Table 2, therefore, shows the 9 articles that exceed 100 citations: 14% of the articles collect 68% of the total citations. There are 10 other articles that exceed 50 citations. This suggests that the scientific interest in the subject under study is evident.

Table 2 – Articles with more than 100 citations

Authors	Title	Year	Journal	Citations
Johanson, J., Vahlne, J.E.	The Uppsala internationalization process model revisited: From liability of foreignness to liability of outsidership	2009	JIBS	1,663
Acedo, F.J., Jones, M.V.	Speed of internationalization and entrepreneurial cognition: Insights and a comparison between international new ventures, exporters and domestic firms	2007	JWB	185
Slangen, A.H.L., van Tulder, R.J.M.	Cultural distance, political risk, or governance quality? Towards a more accurate conceptualization and measurement of external uncertainty in foreign entry mode research	2009	IBR	168
Chandra, Y., Styles, C., Wilkinson, I.	The recognition of first time international entrepreneurial opportunities: Evidence from firms in knowledge-based industries	2009	IMR	158
Petersen, B., Pedersen, T., Lyles, M.A.	Closing knowledge gaps in foreign markets	2008	JIBS	146
Chi, T., McGuire, D.J.	Collaborative ventures and value of learning: Integrating the transaction cost and strategic option perspectives on the choice of market entry modes	1996	JIBS	140
Nielsen, B.B., Nielsen, S.	The role of top management team international orientation in international strategic decision-making: The choice of foreign entry mode	2011	JWB	139
Evans, J., Treadgold, A., Mavondo, F.T.	Psychic distance and the performance of international retailers: A suggested theoretical framework	2000	IMR	113
Kumar, V., Subramaniam, V.	A contingency framework for the mode of entry decision	1997	JWB	101
			Tot.	2,813

3.2. Thematic analysis of the selected articles

Starting from the descriptive analysis of the most influential journals and articles, the systematic review continues with a thematic analysis that allows answering to the second research question of the present study concerning the main theoretical approaches and the decision-making processes emerging from the literature. In particular, three main areas of analysis emerge from a thorough reading of the selected articles. The first area concerns the study of the theoretical approaches underlying the 64 selected articles. In fact, the decisions regarding foreign market entry are traced back to several perspectives. As is well known, for example, in their reformulation of the Uppsala model, Johansson and Vahlne (2009) explicitly affirm the relevance of the network vision as a key theoretical context for a greater understanding of the ways companies go abroad, a theoretical conceptualization that, moreover, it is the basis of the concept of liability of outsidership. There are articles that confirm the relevance of this network perspective (Ojala, 2015), broadening the decision-making spectrum of entry methods, for example, also addressing the issue of re-entry into a market (Vissak et al., 2020). A common ground of all these contributions may be interpreted taking into consideration how the decision-making about foreign market entry is related to the ability of export decision makers for finding players who may act as “gatekeepers” to the new markets (Guercini and Runfola, 2010), and let the company deals with the difficulties of entering a foreign market.

However, the network view is only one of the theoretical approaches adopted. The article by Acedo and Jones (2007), one of the most cited in the sample, has cognition as its starting point of theory, according to a psychological as well as managerial conceptualization, considered central to the understanding of the speed in the processes of entry into a foreign market. Li and Parboteeah (2015), on the other hand, draw on the institutional theory to understand the impact of imitative behaviors on foreign market entry decisions, specifically emphasizing the role of the cultural variable in favoring or not such behaviors. The theoretical assumptions are, therefore, various in the contributions considered, even including the real options theory (Li & Rugman, 2007; Chi et al. 2019). Following these contributions, the decision-making regarding foreign-market entry is then related to a set of different variables that comes from different theoretical perspectives. In this sense, it is not possible to give priority to some with respect to others. However, different theoretical lenses contribute to elaborate some features of the decision-making, for example to what extent is imitative or if it is faster for some actors in comparison to others.

A second issue emerging from the systematic literature review concerns how the concept of uncertainty is approached by the selected articles and how it relates to entry decisions. The issue of the perceived distance between the market of origin and the market of destination assumes centrality in many studies, given that it is considered one of the elements capable of generating liabilities in the process of foreign development of companies, affecting the processes of internationalization. The conceptualization of the distance between markets is interpreted according to different meanings, for example as a geographical distance rather than a linguistic distance. There are articles that specifically address the psychic distance (Treatgold & Mavondo, 2010; Baack et al. 2015; Ojala et al. 2015) as a particular aspect on which to decline the uncertainty and difficulties in deciding to enter a foreign market. However, there are other contributions that emphasize the role of different dimensions connected to the perception of uncertainty, such as the concept of country familiarity proposed by Clark et al. (2018), the environmental uncertainty explored by Tseng and Lee (2010), or the uncertainty in its endogenous and exogenous dimensions (Sears, 2019). From this second set of contributions, it emerges that foreign market entry is a decision that is based on “perceptions” that are almost individual by decision-makers to face uncertainty. It is then clear that the extent to which some of those sources of “distances” may be perceived as fundamental, can guide the process of

entering a foreign market. The literature shows different causes of uncertainty, but it seems to highlight the need to further study and elaborate perceptions of differences among international markets as a crucial aspect of foreign-market entry decisions.

A third area emerging from the systematic literature review concerns the entry modes that are considered decision-making contexts to understand the relationship between the formulation of judgment and the management of uncertainty in international decision-making. In fact, in the selected articles, decision-making is declined with reference to the traditional ways in which companies enter a foreign market, albeit with different emphasis between the different forms. There are articles that focus on exports (Morgan & Katsikeas, 1997; Freixanet et al. 2018), while a relevant part focuses on forms that can be perceived as riskier, such as foreign direct investments (Boeh & Beamish, 2012; Dermibag et al. 2010; Li & Rugman, 2007; Ma & Delios, 2007) or international joint ventures (Sartor & Beamish 2018; López-Duarte & Vidal-Suárez, 2010; McNaughton, 1996). Additionally, there is also an emphasis on the heuristically-based decision with reference to specific entry modes. In particular, the extant literature on the choice of entry modes, which assumed that the mode of entry is a single-stage rational analytic decision by the manager, is challenged by Kumar and Subramaniam (1997) who propose a contingency framework for the entry mode decision in which an alternative strategy of decision is discussed. In the so-called ‘cybernetic decision strategy’, decisions are made by considering a few critical alternatives, according to a hierarchical process, and the decision rules follow some (non-specified) heuristic established through prior cognitive processes. However, the effectiveness of decision-making is not warranted. Maitland and Sammartino (2015) investigate cross-border acquisitions in which heuristics are seen as powerful cognitive tools that enable, rather than limit, decision-making in dynamic and uncertain environments. Authors examine the cognitive efforts of senior decision-makers of an inexperienced multinational, as they assess a potential acquisition in a politically hazardous country. In this context, heuristics allow building small world representations of a very uncertain strategic context. To summarize, this third area emerging from the analysis investigates both the context where decisions making of foreign entry are assumed, such regarding how export or alternative modes are adopted, and the “tools”, such as heuristics (Guercini and Runfola, 2020) that may support the process of decisions making.

4. Implications, future research, and conclusion

Foreign market entry decision-making: what is the current state of research and what are the main theoretical approaches and the decision-making processes emerging from the literature? These are the questions that the present study was aimed at answering.

The analysis of the articles in this systematic review of the literature highlights how the topic, despite having its roots in past influential contributions, seems to have been the subject of renewed interest in recent years. Understanding how companies decide on the entry of foreign markets is a crucial topic for international marketing and international business scholars. As already underlined, this can derive both from the growing degree of globalization of economies and from the fact that decisions on international development represent for many companies, including small and medium-sized ones, the main way to grow.

This article represents an attempt to systematize the contributions in the literature while highlighting the main directions for future research and possible gaps to be addressed by scholars interested in decision-making for companies in their entry mode strategies. The review shown that three main areas of research, related to the theoretical perspectives used to explain the decision-making process (with a great relevance of the network-based view), how the concept of uncertainty may be considered and the relationship between decisions to be assumed

and different market entry modes. However, we believe that advancement in research of decision making may be directed towards the understanding of some issues that are related to the ones described in the review.

A first relevant research direction and potential gap to be addressed concerns the analysis of the differences between decision-making approaches with reference to the different entry methods. Although the entry mode has been addressed in the research as a context of decisions, there is still space for contributions aimed at proposing an overall and comparative picture of differences and commonalities when actors should decide on different entry modes. This is particularly true if we consider different entry mode decisions by the same decision-maker. The distinction between direct and indirect methods may imply a different way of dealing with uncertainty on the part of the same business decision-maker (see for example Ekeledo and Sivakumar, 1998 or Slagen et al., 2009), even in the same company with respect to different entry modes. The level of uncertainty that characterizes forms of direct export is certainly different from that represented by methods of direct entry into foreign markets. How does this level of uncertainty relate to decision-making? What rules do businesses follow with reference to the different entry methods? What common paths and what differences among the alternative forms of entry? In our view these are research questions, deserving still further research by academics.

A second research direction concerns the relationship between uncertainty and decision-making in the comparison between companies with different sizes and in the comparison between SMEs and MNEs. Previous research, at least in the contributions analyzed in our review, seems to have considered a concept of uncertainty that is generally valid for all types of companies. However, the international decision-making has been studied both with regard to SMEs (Francioni et al. 2015) and to MNEs, that have been associated with more rational behaviors (Aharoni et al., 2011). On this issue, however, there is still space for new knowledge regarding decision-making on market-entry. Future research should be oriented to understand how the uncertainty at the level of individual decision-makers and at the organizational level is declined in the case of MNEs and SMEs and what are the solutions implemented to reduce this uncertainty, thus highlighting differences and similarities in the case of the two types of companies.

The third direction of research concerns the ways in which technology can support companies in their decision-making processes regarding market entry decisions. The previous systematic review does not propose technology as a crucial issue for foreign expansion. However, if we consider the wider and more recent debate in management, technology is assumed to play a relevant role in the future, especially if it may act as a reducer of uncertainty in any field of decision-making. As highlighted in the literature, marketing and management processes must now relate to the opportunities and challenges that new technologies, such as artificial intelligence or automation may relate to decision-makers (Guercini, 2020). The new technologies can favor the process of entry into foreign markets, representing a modality (Guercini and Runfola, 2015), and guarantee an extremely rich and useful information base also for small-medium enterprises. In this context, a relevant research gap concerns, how do new technologies relate to the management of uncertainty in decision-making? How can new technological paradigm such as artificial intelligence, be adopted to support business decision-makers? This is an area that deserves further research by academics, given the role that technologies are taking and will take on for theoretical development and managerial practice.

Although the study aims to contribute to the theoretical debate on decision-making in foreign market entry, it can show some implications for practitioners. The implications are twofold. First, this paper emphasizes the importance of conceiving the decision about entry modes from an individual as well as an organizational perspective. Managers should be aware

that the decision under question can be linked to personal as well as organizational routines to be effective. Second, our paper shows some “solutions” suggested by the literature, both in terms of heuristics or networking behavior that can help in the decision-making process and to which managers may rely on to face uncertainty.

This study has also some limits. As for the methodology, the systematic review is based on a list of journals, whose selection followed specific criteria, that, however, do not cover the full range of academic journals in the international business and international marketing fields. This may limit the scope of the review, and additional research is required to extend or redefine the journals considered for the review. Additionally, a series of contributions was excluded, such as book chapters, editorials, conference papers, notes and letters, which might lead to an interpretation bias due to the reduced number of reviewed literature pieces. Finally, as the screening and thematic analysis is based on a reading of the articles by the authors, thus using a manual literature review technique, this could have led to unintended biases.

In conclusion, this contribution represents an attempt to provide an insight into the state of the art of the literature on foreign market entry decision-making. Our research, although preliminary, shows a growing interest in the topic and the need to provide an overview of what has been proposed so far in the various contributions published in the top IB and IM journals. This contribution has tried to provide an initial response to these systematization needs.

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Appendix

Authors	Title	Year	Journal
Vissak T., Francioni B., Freeman S.	Foreign market entries, exits and re-entries: The role of knowledge, network relationships and decision-making logic	2020	International Business Review
Elia S., Larsen M.M., Piscitello L.	Entry mode deviation: A behavioral approach to internalization theory	2019	Journal of International Business Studies
Chi T., Li J., Trigeorgis L.G., Tsekrekos A.E.	Real options theory in international business	2019	Journal of International Business Studies
Richardson C., Ariffin S.K.	A Leap of Faith? Managerial Religiosity And Market Entry Decisions	2019	Management International Review
Xu K., Hitt M.A., Miller S.R.	The ownership structure contingency in the sequential international entry mode decision process: Family owners and institutional investors in family-dominant versus family-influenced firms	2019	Journal of International Business Studies
Sears J.B.	A real options model of market entry: Endogenous uncertainty and exogenous uncertainty	2019	Journal of International Management
Luo Y., Bu J.	When are emerging market multinationals more risk taking?	2018	Global Strategy Journal
Freixanet J., Renart G., Rialp-Criado A.	The Impact of Managers' Global Orientation on SME Export and Economic Performance	2018	Management International Review
Jiang F., Ananthram S., Li J.	Global Mindset and Entry Mode Decisions: Moderating Roles of Managers' Decision-Making Style and Managerial Experience	2018	Management International Review
Kriz A., Welch C.	Innovation and internationalisation processes of firms with new-To-The-world technologies	2018	Journal of International Business Studies
Clark D.R., Li D., Shepherd D.A.	Country familiarity in the initial stage of foreign market selection	2018	Journal of International Business Studies
Sartor M.A., Beamish P.W.	Host market government corruption and the equity-based foreign entry strategies of multinational enterprises	2018	Journal of International Business Studies
Magnier-Watanabe R., Lemaire J.-P.	Inbound foreign direct investment in Japan: A typology	2018	International Business Review
Håkanson L., Kappen P.	The 'Casino Model' of internationalization: An alternative Uppsala paradigm	2017	Journal of International Business Studies
Lai J.-H., Lin W.-C., Chen L.-Y.	The influence of CEO overconfidence on ownership choice in foreign market entry decisions	2017	International Business Review
Müllner J.	From uncertainty to risk—A risk management framework for market entry	2016	Journal of World Business
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