PERCEIVED RISK AND ENTRY MODE STRATEGIES OF DANISH FIRMS IN CENTRAL AND EASTERN EUROPE

A Thesis Submitted to Lincoln University in Fulfillment of the Requirements for the Degree of Master of Commerce and Management

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Abstract

In his assessment of the theory development within international market entry mode, Cumberland (2006) outlines the importance of devoting more attention to the research linking the theoretical level and the operational level. Other researchers have shown the performance of a firm is highly affected by its internationalisation process and selecting the right entry mode is one of the most critical managerial decisions. Despite many years of interest from researchers, the entry choice strategy area is still considered a frontier issue.

Researchers have suggested that managing risk is one of the major strategic objectives for managers of multinational firms. Furthermore, risk is regarded as a key determinant in relation to entry mode choice. Research has found that the various risk variables should be regarded as an integrated measure in relation to entry mode choice and not single measures. By looking at a single risk variable, the firm might analyse the situation incorrectly, which may lead to an incorrect entry mode.

This study investigates the relationship between entry mode choice, perceived risk and risk tolerance for Danish firms entering Central and Eastern Europe by using a probabilistic model. The results indicate risk should be regarded as an integrated measure in relation to entry mode. Despite not all risk variables showing significant correlation with entry mode, some relations were found. The preferred model for predicting entry mode included years of CEE experience, number of competitors, cultural difference, consumer taste and future market potential. In addition, the analysis showed that Danish firms generally are relatively risk averse. Regardless of entry mode, the analysis showed that Danish firms regard CEE as politically stable and do not see a potential risk in government involvement in their activities. Furthermore, Danish firms experience relatively high and increasing competition in CEE, however, they indicate the same methods are available for marketing in CEE as in Denmark.

Keywords
Entry mode, risk, perceived risk, risk tolerance, Danish firms, Central and Eastern Europe.

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1. Introduction

The performance of a firm is highly affected by its internationalisation process (Brouthers et al. 2000, Buhner 1987, Daniels and Bracker 1989, Geringer et al. 1988, Hitt et al. 1991, Morrison and Roth 1992a, 1992b). This is because doing business in foreign countries is deemed to be substantially more risky than remaining in the domestic market (Brouthers et al. 2000, Ghoshal 1987, Vernon 1985).

Selecting the right entry mode for an international market is one of the most critical managerial decisions and affects the long-term success of a firm (Bradley and Gannon 2000, Brouthers et al. 1996, Lu and Beamish 2001, Luostarinen and Welch 1997). Despite many years of interest from researchers and the international commercial environment, the entry choice strategy area is still considered a frontier issue within the field of international marketing (Cumberland 2006).

Brouthers (1995) has suggested that managing risk is one of the major strategic objectives for managers of multinational firms (Ghoshal 1987). Further, Yasai-Ardekani (1986) has suggested that risk has an influence on management perception (Brouthers 1995). This influence then affects the structure and management of the firm. To outline the importance, it has been found that firms choosing a strategy which incorporates international risk perform better than firms that do not take risk into consideration (Kwon and Konopa 1993, Miller and Bromiley 1990, Miller and Reuer 1998).

Research has shown a relationship between risk and international expansion – meaning that firms can reduce overall risk by entering new markets and spreading out their activities (Brouthers 1995, Rugman 1979). Further, research has shown that risk can be a motivation for international expansion, especially in the form of bargaining power when entering a competitor's market (Brouthers 1995, Casson 1987, Graham 1985, Vernon 1974, Vernon 1985).

For several researchers, risk is and has been regarded as a key determinant in relation to entry mode (Anderson and Gatignon 1986, Brouthers 1995, Buckley and Mathew 1980, Contractor 1990, Hennart 1988, Root 1987). Previous

research has shown that international risk perceptions have a significant impact on the entry mode choice (Brouthers 1995, Agarwal and Ramaswami 1992). Vernon (1985), Miller (1992), Brouthers (1995) and Ahmed et al. (2002) have suggested that the perception of integrated international risk and the strategic choice of entry mode may be related. Their research has suggested the shortcoming of only looking at one or two risk variables – e.g. ownership risk or transfer risk – contrary to the integrated risk. By only looking at a single risk variable, the firm might analyse the situation incorrectly, which may lead to an incorrect entry mode.

Based on the research of Vernon (1985), Miller (1992), Brouthers (1995), Brouthers et al. (2008) and Ahmed et al. (2002), this study will adapt a model for measuring perceived risk in relation to entry mode strategies of Danish firms in Central and Eastern Europe. The purpose is to validate the model on Danish firms.

This leads to the two main hypotheses: *In countries where risk is low, firms will select entry strategies in which they can maintain control over the operation* and *in countries where risk is high, firms will select entry strategies which shift risks and control to other firms.*

Chapter 2 below contains a literature review of previous literature on entry mode, risk, Central and Eastern Europe and risk tolerance. In chapter 3 the method is described with focus on measurements, survey & data and analytical methodology. In chapter 4 the analysis and results are presented. Chapter 5 contains a discussion of the results. Finally, the thesis is rounded off in the conclusion in chapter 6.

2. Literature review

Since the first two countries started trading with each other scholars have been trying to explain who was gaining from what. For years most theories describing cross-border interactions focused on the nations involved, but as the world and its inhabitants have become more and more global the focus has also been on the individual firm. There is a large amount of literature describing the methods that firms use when they engage in cross-border interactions. A lot of this entry-mode literature considers the firm and host country to develop explanation for the specific entry mode that firms choose.

There are several issues that are central to the literature of entry modes. Of the most important the following two can be mentioned. First is the importance of the entry-mode decision to the future success of the entry. Some literature describes the entry mode decision as one of the most critical ones a firm can undertake. Second are the various entry modes a firm can choose. The key in the literature is the resource allocation and desire for control that the firm wish to have over its foreign operation.

2.1 Entry mode

The strategic choice of market entry mode is one of the most critical decisions a firm can undertake when it decides to enter a new international market. This decision establishes the framework for future international entry structures and the level of control the firm will have over their operations abroad (Choo and Mazzarol 2001, Stern and El-Ansary 1982).

Beginning with Hymer's (1976) work, researchers have been using different theories of the firm to explain its entry mode choices. Included in this work have been at least six major entry mode choice theories, originating from three different theoretical frameworks of the firm that have been proposed over the last four decades (Sharma and Erramilli 2004).

The market imperfection framework was the dominant theory during the 1960s and 1970s, the behavioural framework during the 1970s and part of the 1980s, and the market failure from the 1980s and onward (Sharma and Erramilli

2004).[1] All three frameworks were founded in the market-based view of the firm – an outside-in view from the product side of the firm (Conner 1991, Sharma and Erramilli 2004). During the early 1990s the resource-based view of the firm was introduced. The resource-based view describes the firm from the perspective of its resources endowment and deployment – an inside-out view of the firm rather than an outside-in view (Sharma and Erramilli 2004).

Foreign market entry mode can be defined as "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country" (Root 1987, p. 5). This definition by Root (1987) covers the host country production and marketing modes as well as the export modes including the export, contractual and foreign investment modes, and is regarded as the foundation of entry mode definitions (Sharma and Erramilli 2004). Later definitions have been developed around it (Sharma and Erramilli 2004).

Anderson and Gatignon (1986) and Gatignon and Anderson (1988) refer to an entry mode as a governance structure that allows a firm to exercise control over its foreign operations (Sharma and Erramilli 2004). This definition refers to the country production and marketing modes in relation to the level of control - contracts, joint venture, and wholly owned subsidiary (Sharma and Erramilli 2004). Anderson and Coughlan (1987) arranged the export modes along the same dimension (Sharma and Erramilli 2004). Finally, Hill et al.'s (1990 p. 119) definition – "an entry mode as a way of organising a firm's business activities in a foreign country" – also relates to the existing ones.

It is important at the outset to define the terminology that will be used to describe the various entry modes. This thesis distinguishes between three general types of entry modes:

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[1] Due to the limitations of this thesis, the description of these various entry mode theories will not be covered in detail. Such a description can be found in Sharma and Erramilli (2004) pp. 2-6. In short, these six key entry mode choice theories are: Hymer's, International product life cycle, Internationalization, Internalization, Eclectic and the Transaction cost theory. Hymer's theory and the international product life cycle theory are grounded the market imperfection framework. The internationalization theories are grounded in the behavior framework. And the last three theories have their foundation in the market failure framework (Sharma and Erramilli 2004).

- **Exporting** (non-equity mode). Includes two types of entry: (1) Exporting: Involves a firm selling its products which are manufactured outside the host country to the host country. (2): Licensing/franchising (agent/distributor). Types of contractual agreements (Root 1994, Shane 1994), involving non-equity associations between an international firm and a party in the host country in which technology or management systems are transferred (Taylor et al. 1998).

- **Joint venture**. A joint venture requires the firm to enter into an arrangement where equity and control of the venture are shared with a partner from the host country. An equity investment is required in the joint venture, and can involve taking a minority or a majority stake in the venture (Makino and Beamish 1998, Pan and Tse 1996, Tse et al. 1997).

- **Wholly owned subsidiary**. Here the parent firm owns a subsidiary 100 percent in the host country. Full ownership can involve either acquiring an existing business in the host country or investing in new facilities (Greenfield investment) (Taylor et al. 1998).

This classification is widely used by other researchers in the area of entry mode strategy (Ahmed et al. 2002, Brouthers et al. 1993, Brouthers 1995, Buckley and Casson 1981, Contractor 1984, Czinkota et al. 1994, Erramilli and Rao 1990, Hill and Kim 1988, Hill et al. 1990, Hirsch 1976, Kim and Hwang 1992, Minor et al. 1991, Mirus 1980, Naumann and Lincoln 1991, Rugman 1981, Teece 1983, 1985, 1986, Young et al. 1989 – see e.g. Caves 1982 and Root 1987 for an extensive discussion).

In the context of foreign market entry, it has been found that the choice of entry mode strategy is a trade-off between preferences for control and resource commitment (Anderson and Gatignon 1986, Agarwal and Ramaswami 1992, Erramilli and Rao 1990, Hill et al. 1990, and Hwang 1992, Kogut and Singh 1988). This trade-off can only be evaluated in the context of the risk that management thinks it may encounter in the host country (Brouthers 1995). In high risk countries, firms may not be willing to commit resources. In countries that firms perceive as low risk, they may desire control over the operation,

assuming that they (or a potential partner) can do as good a job of running the foreign operation as they do with the domestic operation.

Each of the entry modes described above is consistent with a different level of control (Calvet 1984, Root 1987) and resource commitment (Vernon 1979). By control is meant the authority over operational and strategic decision making, while resource commitment refers to dedicated assets that cannot be redeployed to alternative uses without loss of value (Kim and Hwang 1992).

2.1.1 Exporting (non-equity)

Exporting is the mode of entry that requires the least commitment of resources on the part of the firm in relation to the internationalisation process. However, exporting only gives very limited control possibilities for the entering firm. With export entry modes, a firm's products are manufactured in the domestic market or a third country, and then transferred either directly or indirectly to the host market. Direct export normally involves the firm handling all paper work, physical delivery and set the prices, for example, with the product either being sold directly to the customer or through agents or distributors. Indirect export modes, by contrast, generally involve the use of intermediaries – such as trading firms to perform these activities, often without the firm's involvement in the foreign sales of their products (Driscoll and Paliwoda 1997).

Contractual entry modes include a number of arrangements – such as licensing, franchising, management and turnkey contracts, non-equity joint ventures and technical, know-how or coproduction arrangements. Contractual arrangements generally take place when firms having some sort of competitive advantage are unable to exploit this advantages because of for example constraints in resources, but are able to transfer the advantage to another party who has the resources. These arrangements often entail long term relationships between partner firms and are typically designed to transfer intermediate goods – such as knowledge and/or skills between firms in different markets (Driscoll and Paliwoda 1997).

2.1.2 Joint venture (equity)

Joint venture is defined as the pooling of assets of two or more firms in a common and separate organisation. Joint ventures may at times be the only entry mode allowed by the host government, but in many instances they are also preferred entry modes as they allow a firm to limit initial resource commitment, and later expand or terminate the investment depending on the joint venture's performance or some other strategic considerations (Madhok 1997).

Joint ventures can be established by setting up a new operation, similar to greenfield investments, or by using a partner's existing assets, similar to a partial acquisition. In this thesis, there will not be distinguished between these two different types of joint venture, since focus is on resource commitment and control in relation to the entry mode, which is the same in both types.

Joint ventures require fewer resources on the part of the firm compared to wholly owned subsidiaries, but they also reduce the control that management has over the foreign operation. In joint ventures the levels of control and resource commitment can vary with the nature of the ownership split, however the extent of control and resource commitment generally lies between that of wholly owned subsidiaries and exporting.

For firms seeking to enter a foreign market, a critical issue is whether they can apply their competitive advantages to those markets. Their success in a foreign market depends heavily on their ability to transfer their know-how to the local partner, as well as on the ability of the local partner to absorb that know-how (Madhok 1997). Not all potential foreign market entrants possess sufficient knowledge of the local market to earn acceptable returns on their resources, nor are they able to develop that knowledge in a timely or cost-effective manner (Madhok 1997). However, by cooperating with a local partner, a firm entering a foreign market can fill gaps in its knowledge base (Aulakh and Kotabe 1997, Burgel and Murray 2000, Erramilli and Rao 1990, Luo 2001). By cooperating with entrants, the local partner can gain access to the entrant's know-how. This mutual association enables both firms to increase the likelihood of earning greater returns on their investments.

The entrant will realise greater returns from such cooperations to the extent that its know-how can be readily transferred to the local partner and the local partner can absorb that know-how (Madhok 1997). Without these conditions, the entrant will attempt to wield more control in the foreign market. Greater returns can be jeopardised if dealing with the local partner raises transaction costs – the costs of designing, negotiating, executing, and monitoring exchange transactions (Hill et al. 1990, Erramilli and Rao 1993, Teece 1980). Essentially, transaction costs are higher when the value of the firm's resources is at risk. This can happen when the entrant has little experience or knowledge with the foreign market or their local partner (Kim and Hwang 1992). The more these conditions exits, the more vulnerable the entrant is to local partner opportunism, hence the more likely it is that the entrant will use control to protect itself in the foreign market (Andersen 1997, Hill et al. 1990).

The success of a joint venture depends on partner performance and cooperation. Partner cooperation, however, should not be assumed to exist in all joint ventures. Quite often, joint venture partners fight, as each of them attempts to get ahead in a manner that hurts the other partner firm (Hamel et al. 1989, Paik 2005). Joint ventures involve both explicit costs such as the cost of shared operations and implicit costs for negotiating, monitoring, and controlling exchange transactions (Brockhoff 1992, Paik 2005, Williamson 1989). Regardless of its own hidden agenda in a joint venture, a firm will be concerned about its partner firm's opportunistic behaviour (Das and Teng 1998, Paik 2005).

In terms of control, joint ventures are often regarded by firms as the second-best mode of entry because joint ventures provide only a limited degree of control over the local firm and reduce the entering firm's flexibility to change the operation. Therefore, joint ventures are in most cases only used if the following specific conditions are present: (1) the operation depends on resources from two or more partners; (2) the markets for the resources from the partners are subject to market failure, i.e. high transaction costs; and (3) it is not feasible to internalise the whole operation with one partner taking over the other(s) (Buckley and Casson 1976, 1998, Hennart 1988, Meyer and Nguyen 2005). The first two conditions are for entering firms to seek collaboration with a local partner rather than establish a greenfield operation. The third condition

distinguishes acquisition from a joint venture entry (Anderson and Gatignon 1986, Buckley and Casson 1976, Hennart 1988 and 1991, Meyer and Nguyen 2005).

2.1.3 Wholly owned subsidiaries

Wholly owned subsidiaries require large resource commitments and will give the entering firm full control of the international operation. This full control may be achieved either through greenfield investments, which means setting up a new plant or other establishments from scratch, or through acquisition, which means the purchase of a controlling interest in a local firm – if there is partial control with a local firm if falls under the category joint venture.

This complete ownership gives the firm the ability to manage the daily activities of the operation without the interference or consent of other parties. Acquisitions offer the fastest means of building a sizable presence in a foreign market, yet are fraught with risks of overpayment, inability to fully assess the value of acquired assets, and post-acquisition challenges including cross-cultural integration. Greenfield investments offer the greatest control over the local affiliate, yet often require the greatest contribution of know-how (Datta and Puia 1995).

A wholly owned subsidiary is the preferred entry mode for firms that want complete control of their operations in new and emerging markets. As the firm has control over all issues in the operation, cooperation with a partner firm is no longer an issue as compared to a joint venture. Many firms use wholly owned subsidiaries as an entry mode into new markets because they provide them with the greatest degree of control while eliminating many of the performance and relational risk traditionally associated with joint ventures (Amin et al. 1995, Paik 2005).

One key difference between joint ventures and greenfield wholly owned subsidiaries investments is the origin of the resources employed in the new firm. A Greenfield wholly owned subsidiary uses the resources of the entering firm and combines them with local assets, giving the entering firm more control over the organisation of the new firm. A joint venture provides access to selected

resources contributed by the local partner. At the same time, control over the firm has to be shared with the local partner firm (Anand and Delios 2002, Hennart and Park 1993, Meyer and Estrin 2001, Meyer and Nguyen 2005).

2.2 Risk

In most cases the driver behind international expansion is the fruitfulness of new markets, however most firms face many and varied risks in these markets (Ahmed et al. 2002, Brouthers 1995). Risk can be defined as "(1) the uncertainty associated with exposure to a loss caused by some unpredictable events and (2) variability in the possible outcome of an event based on chance" (Ahmed et al. 2002, p. 805). The amount of risk related to a chance event depends on how accurately the results can be predicted – the more accurate the prediction, the lower the degree of risk (Ahmed et al. 2002, Jackson and Musselman 1987).

Miller (1992) states that business and strategy literature lacks a generally accepted definition of international risk. Risk is in most cases related to unanticipated or negative variation in revenue, cost, profit, or market share, and Ahmed et al. (2002, p. 805) therefore defines international risk as "as the dangers firms faced in terms of limitations, restrictions, or even losses when engaging in international business".

Firms normally find foreign business opportunities to involve more risk than domestic ones (Ghoshal 1987, Miller and Bromiley 1990, Vernon 1985). In foreign markets firms all too often encounter new types of risk and by doing so, incur costs they would normally avoid in the domestic market (Werner et al. 1996). These costs could include insurance premiums to protect property from nationalisation (Howell and Chaddick 1994) or costs for physical security measures to protect property and people against kidnapping, sabotage or terrorism (Harvey 1993). International risk may also affect performance through losses due to government actions (Makhija 1993). These governmental actions include expropriation of firm assets or new policies that restricts the actions of the firm – such as cross-border trade restrictions (Mason 1994, Minor 1994). The most common risk firms face on the foreign markets is the exchange-rate risk, which can create losses in otherwise profitable operations when a currency is devalued (Luehrman 1990).

The international business literature has tended to focus on particular types of risk – especially political risk, ownership risk, or transfer risk (Agarwal and Ramaswami 1992, Akhter and Lusch 1998, Bonaccorsi 1992, Campa 1994, Howell

and Chaddick 1994, Kim and Hwang 1992, Luuehrman 1990, Ting 1988) contrary to interrelated risks (Miller 1992). This has been regarded as a significant shortcoming in the literature. Examining only one international risk variable, such as political risk or financial risk, might lead to incorrect entry mode decisions because other related risks were ignored (Brouthers 1995, Miller 1992). Research has suggested that actions taken to avoid one type of risk may actually increase exposure to other types of risk (Brouthers 1995, Miller 1992). Since all forms of risk may not be related to each other, a single international measure of risk may not be appropriate. For these reasons, it appears to be important to incorporate a number of international risk factors into investigation of international risk.

Vernon (1985) was the first to refer to international risk, however it was Miller (1992) who provided details of a threefold integration of international risk variables – (1) general environment uncertainty, (2) industry risk, and (3) firm-specific risk.[2]

General environment uncertainty refers to those variables that are related to all industries within a country – such as political risk, government policy uncertainties, economic uncertainties, social uncertainties, and natural uncertainties (e.g. natural disasters). Industry risk refers to the risks related to difference in industrial or product-specific factors. Among these factors are uncertainties related to production inputs – such as the availability of material and labour supply, quality, and quantity. These uncertainties can be created by changes in supply or changes in demand within a specific country. Product market uncertainties are also included in the area of industry risk, and these can be consumer tastes, and the availability of substitute or complementary goods. These uncertainties would have an impact on the demand for an industry's output (Ahmed et al. 2002, Brouthers 1995, Miller 1992).

Furthermore, there are the uncertainties that refer to the competitive uncertainty of an industry. This is a wide group of uncertainties which encompasses the firm's ability to predict the amount and type of goods available

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[2] Shan (1991) made a study that attempted to examine the influence of two types of risk which were labeled as "contextual" and "transactional" risk. However, there was no attempt by Shan to directly measure them.

in the market. Competitive uncertainties come from competition among existing firms, entrance of new firms, and changes in technology (Brouthers 1995). In Brouthers (1995), Miller (1992) states that on an international basis, industry risk is closely related to general environment uncertainties, because changes in the environmental variables (e.g. trade laws), directly affect the industry uncertainties (e.g. availability of inputs and entrance of new competitors) (Brouthers 1995).

The third factor in Miller's (1992) integration of international risk variables is firm-specific risk. As stated on in Brouthers (1995, p. 9), this factor includes five specific types of uncertainty: "(1) operating uncertainties related to labour unrest and employee safety issues, (2) liability uncertainties associated with the harmful effects of the product or process to users and nonusers – e.g. pollution, (3) credit uncertainties arising from inability to collect accounts receivables, (4) behavioural uncertainty where employees and managers may act out of their own individual self-interests, and (5) research and development (R&D) uncertainty – which is related to the unknown outcome of R&D investments". These uncertainties reduce the predictability of corporate performance, and therefore increase international risk (Ahmed et al. 2002, Brouthers 1995).

Further Brouthers (1995, p. 9) states that "the firm-specific risks exist in the domestic market as well as internationally, however the nature of international operations increases these risks in two ways; (1) because the firm must perform these functions in different cultures where the relationships may vary significantly from the home market, and (2) international operations are by their nature more difficult to structure and control" (Brouthers 1995).

Brouthers (1995) found that both international and domestic firms face many of the same risks. However for the international firm, some of these risks are higher than for the domestic firm. E.g. the general environmental uncertainty of nationalisation, import restrictions, and restrictions on the repatriation of profits has a much greater impact on international firms than on domestic firms. Industry risk such as import restrictions, access to government owned resources or contracts, and competitive uncertainties due to government support for certain industries or firms also impact international firms greater than domestic

firms (Brouthers 1995). Finally, in the area of firm-specific uncertainties international firms face greater operating risk and behavioural uncertainty due to the very nature of being nondomestic – e.g. making a potential target for anti-foreigner sentiment (Brouthers 1995). This was the case with Danish firms in the Middle East in early 2007 after the Cartoon issue, where Danish products where boycotted due to a political and religious case.

The original part of Vernon (1985) and Miller's (1992) work was the concept of looking at international risk variables as a whole. Decisions in one risk area affect the total risk and affect the decisions in other risk areas, therefore, risk is multidimensional (Miller 1992). This multidimensionality can be related to the choice of entry mode. Miller (1992) argues that focussing on one specific area of risk – such as exchange rate risk or political risk, in isolation of the other risk factors could lead to a wrong entry mode choice. Brouthers (1995) took the work of Miller (1992) a step further and examined the relationship between international risk and entry mode strategy, and found that the choice of entry mode varied according to perceptions of international risk (Brouthers 1995).

2.3 Risk-entry mode framework

Empirical studies have found a significant relationship between one or more risk factors and entry mode strategy (Kim and Hwang 1992). In these studies, risk has been defined as either dissemination risk (Agarwal and Ramaswami 1992, Anderson and Gatignon 1986, Brouthers et al. 1993, Kim and Hwang 1992) or as country-specific risk (Anderson and Gatignon 1986, Brouthers et al. 1993, Erramilli and Rao 1990, Kogut and Singh 1988).

Dissemination risk (part of Miller's (1992) firm-specific risk) is the risk of exposing a firm's know-how, skills or technology to actual or potential competitors (Brouthers 1995 p. 35). Dissemination risk has been operationalised in various ways – such as R&D expenses (Chu and Anderson 1992, Gatignon and Anderson 1988, Gomes-Casseres 1990, Kim and Hwang 1992, Stopford and Wells 1972), the number of employees in R&D (Kim and Hwang 1992), marketing and advertising expenses (Chu and Anderson 1992, Gatignon and Anderson 1988, Gomes-Casseres 1990, Stopford and Wells 1972), monitoring contract compliance (Agarwal and Ramaswami 1992), and brand and reputation strength (Kim and Hwang 1992). In most cases, higher investments in these variables indicate increased dissemination risk. The finding in abovementioned research does not, however, indicate how to handle multiple types of risk in entry mode decisions (Ahmed et al. 2002).

Country-specific risk (part of Miller's (1992) general environmental uncertainty) is defined as "the external uncertainties (environmental unpredictability) in a given country" (Brouthers 1995 p. 35, Gatignon and Anderson 1988). Brouthers (1995, p. 12) found that "country-specific risk has been operationalised as environmental volatility (Erramilli and Rao 1993), socio-cultural distance (Chu and Anderson 1992, Gatignon and Anderson 1988, Kogut and Singh 1988), clusters of countries (Anderson and Coughlan 1987, Chu and Anderson 1992, Gatignon and Anderson 1988, Goodnow and Hansz 1972), and instability of political, social, and economic conditions (Agarwal and Ramaswami 1992, Kim and Hwang 1992)". Most previous entry mode research has addressed these elements of international risk separately, but as mentioned above, few studies have examined international risk as a whole (Brouthers 1995).

As summarized by Brouthers (1995, p. 13), "studies that look at only one variable of international risk – such as studies of political risk (Robock 1971, Simon 1982) or financial risk (Stone 1989), may lead to incorrect entry mode decisions because other related risks – such as social or input market uncertainties, have been ignored". Few studies have incorporated risk as an accumulated measure. In relation to entry mode, most studies have analysed a specific aspect of entry strategies, especially ownership and control (Agarwal and Ramaswami 1992, Anderson and Gatignon 1986, Hill et al. 1990). Neither have they examined the trade-off between the different kinds of risk in making the strategic decision, and thus provide an incomplete picture. As presented above, different types of risk should affect the entry mode strategy in different ways. If only one or two variables of risk are considered, the entry mode selected may create unforeseen problems for the firm from the risk variables not considered in the entry mode selection decision (Brouthers 1995).

Dealing with international risk can happen in various ways – e.g. through the choice of appropriate strategies (e.g. entry modes), however, perception of these risks may vary from firm to firm and from country to country. If the perception of risk varies, so will strategic choice – in this case entry mode (Brouthers 1995). Two firms may perceive the same risk in a country but choose different strategies because of each firm's different tolerances of risk (Shama 1995). International firms most often seek to minimize risks associated with international expansion by controlling the operations of the international set-up, in the belief that this will permit them to manage and reduce risks (Ahmed et al. 2002, Brouthers 1995, Cyert and March 1992). Perceived risk declines over time. The longer a firm has been active on a market the more information it has gathered and the lower the perceived risk. Companies will change their entry modes towards wholly-owned subsidiaries the longer they have been on a market on the assumption that a sufficient market potential is present (Shama 1995).

The risk-entry mode framework described below, was first designed by Brouthers (1995) and later described by Ahmed et al. (2002). It is based on Miller's (1992) International Risk Framework, and has been extended to include recent entry mode selection research. The framework can be divided into two main areas; (1) control risks, and (2) market complexity risks.

2.3.1 Control risks

By controlling the international operations, firms seek to minimize risks associated with international expansion in the belief, that this will permit them to manage and reduce risks (Cyert and March 1992, Mascarenhas 1982). However, when the perception of risk is too high, management might no longer believe that it has control over the risk. At this point, the strategy must change and the firm will be anxious to relieve itself of some of the control, sharing responsibility and shifting the risk management to another firm – such as a joint venture partner or licensee, which might be better qualified to perform the tasks. These control risks are not usually so classifiable into black and white issues. When the risk/control trade-off becomes blurred, a strategy of reduced control might be appropriate (Ahmed et al. 2002, Brouthers 1995).

2.3.1.1 Management experience

The Scandinavian model or Uppsala internationalisation model was the first to suggest that the choice of entry mode on an international market depends on a firm's international management experience (Johanson and Vahlne 1977, Johanson and Weidersheim-Paul 1975). The model explains international expansion as a process of knowledge development and incremental commitment. The basic assumption of the model is that lack of knowledge – resulting from differences in such areas as language and culture – is an important obstacle to effective decision-making in international operations (Li 1995). The argument is that the necessary knowledge can only be gained through experience abroad. A higher level of knowledge can therefore lead to effective strategic choices as part of an ongoing, dynamic process of knowledge improvement in firm performance (Johanson and Vahlne 1977, Li 1995, Terpstra and Yu 1988, Yu 1990).

The model presents internationalisation as a stepwise progressive model where a firm starts with exporting activities in the host market and as it over time gets more experienced, it starts using distributors and agents, establish a sales office and finally starts its own production in the host country.

The in-experienced firm may make inappropriate decisions about matters such as the location, adaption of services and products to local requirements,

management of the workforce, and customers or banking relationships. Consequently, firms initially begin the international expansion through low resource commitments. As they increase their international involvement, they acquire knowledge of the foreign markets and become more confident about taking part in high-control and resource commitment modes.

This stepwise model has been questioned in many studies relating to international market entry (Bell 1995, Crick and Spence 2005, Jones 1999, Moen et al. 2004). But a positive relationship between international experience and the use of full-control entry modes is well documented in the literature (Chang and Rosenzweig 2001, Madhok 1998, Sanchez-Peinado et al. 2007). Prior research have identified international experience as a measure of a firm's ability to exercise control and manage an international operation, thus, influencing entry mode choice (Anderson and Gatignon 1986, Brouthers 1995, Vernon 1985). A lack of experience can have a great impact on risk perception and the desire for control (Brouthers 1995, Vernon 1985).

Low levels of experience means that management will perceive high levels of international risk (Brouthers 1995, Cavusgil and Naor 1987, Vernon 1985), and will have less confidence in its abilities to control foreign operations (Brouthers 1995). Therefore, management will select an entry mode strategy with a low element of control (Anderson and Gatignon 1986, Brouthers 1995). Miller (1992) did not include management experience in this framework, but Brouthers (1995) and Ahmed et al. (2002) include it in their studies, and additional research indicates that management experience has a direct impact on risk perceptions, so it is included as part of the theoretical framework for this study.

2.3.1.2 Cultural difference
Cultural difference refers to the difference or similarities between the cultures of the consumers in the home market and those of the host market – e.g. socio-cultural distance/market knowledge (Anderson and Gatignon 1986, Brouthers 1995, Kogut and Singh 1988, Erramilli and Rao 1990). Culture affects the attitudes and beliefs of potential customers and might impact their responses to certain products or services. Violating a cultural norm can be disastrous for a firm – a lesson many firms have learn the hard way. With small differences in

culture, similar strategies can be adopted. However, as cultural difference increases, or market knowledge decrease, a firm's desire for control decreases (Ahmed et al. 2002, Anderson and Gatignon 1986, Erramilli and Rao 1990, Kogut and Singh 1988).

Johanson and Vahlne (1977) found that perceptions of significant cultural difference between the home and host country support the use of entry modes that involve smaller resource commitment. Establishing an operation in an environment with a culture different and unfamiliar to the foreign firm increases the difficulty of arriving at a judgment about how staff should behave, how to quantify the necessary inputs, and what results to expect (Sanchez-Peinado et al. 2007). In highly different cultures, firms will perceive increased levels of control risk because of their lack of market knowledge and will select entry modes strategies that minimize management control.

2.3.1.3 Industry structure

Industry structure is the third component of control risk. Industry structure affects perceived risk and entry mode selection as it can create barriers to new entrants, reducing the rivalry between firms already in the industry (Ahmed et al. 2002, Porter 1980). In highly concentrated industries (with few players), firms are more likely to perceive low control risk in host countries. The argumentation for this is that firms in highly concentrated industries have fewer competitors, and tend to know their competitors better. Because of this concentration, firms tend to favour high control modes of entry, thus, maintaining barriers to entry into the market (Brouthers 1995, Vernon 1985).

In industries which are characterised by an intensive competition, where many competitors exist, and exit are easy, firms will perceive higher control risk, both because there is much more competition and because the actions of the large number of competitors tend to be unpredictable (Brouthers 1995). Furthermore, in highly competitive industries the amount of trained and capable managers in the country increases, thus the firm can obtain local partners with sufficient knowledge and skills to reduce the need for control (Anderson and Gatignon 1986, Brouthers 1995). Therefore, in highly competitive industries firms will

likely use low control modes of entry in international markets (Ahmed et al. 2002, Anderson and Gatignon 1986, Gomes-Casseres 1990, Harrigan 1985).

A second relation between industry structure and perceived risk has been described in the literature. In highly concentrated industries risk is perceived as high as competitors can inflict more damage to each other. Therefore, firms will favour high control entry modes in order to combat or threaten to combat their competitors (Casson 1987, Graham 1985,). However, it has been found that this behaviour based on "threats" appears to only apply to situations where one firm is technological weaker than the rival (Casson 1987) and is more applicable to the location decision than the mode of entry decision (Brouthers 1995, Vernon 1974).

Overall, firms will combine the three controls risk variables – management experience, cultural difference and industry structure - into a control risk evaluation. Firms will then select their entry mode strategies based on their perception of control risks in the host country. In markets where control risks are low, firms will select entry mode strategies in which they can maintain control over the operation. In host countries where control risks are high, firms will choose entry mode strategies which shift risks and control to other firms.

2.3.2 Market complexity risks

The other part of the international risk framework used by Ahmed et al. (2002) and Brouthers (1995) is the group of risk factors called market complexity risks. Market complexity risks refer to market-specific variables that affect a firm's ability to enter a market, distribute it products, and increase or maintain market share (Brouthers 1995). These market complexity risks affect the firm's management's decision in relation to the amount of resources the firm is willing to commit to a specific market (Brouthers 1995). When the host market is similar to the home market, firms are more willing to allocate resources, while in markets that are very different from the home market, firms are more hesitant to allocate resources, and look for ways to reduce their investment. As it was the case with controls risks, market complexity risks are based on the management's perception of similarities and differences between the home market and host

market (Ahmed et al. 2002). Market complexity risks consist of the following factors (Brouthers 1995).

2.3.2.1 Political risk

Political risk reflects uncertainty about the current political conditions and government policies that are deemed to be critical to the survival and profitability of a firm's operations in the host country (Agarwal and Ramaswami 1992, Akhter and Lusch 1988, Brouthers 1995, Sanchez-Peinado et al. 2007). Political instability that results from war, revolution, coup, or political turmoil can also be political risk (Ahmed et al. 2002). A highly volatile environment will result in firms that want to minimize exposure to risk through entry modes that offer the necessary flexibility in the environmental uncertainties (Erramilli and D'Souza 1995, Kim and Hwang 1992). By reducing resource commitment in risky environments, firms minimize their exposure in cases in which they can be adversely affected or forced to cease their activity by unforeseen political events (Hill et al. 1990).

2.3.2.2 Transfer risk

Transfer risk is defined as "a government's ability to restrict the free flow of goods, services and funds into and out of the host country" (Brouthers 1995 p.16, Rasheed 2005, Root 1987). Root (1987) found that in some transition economies government policies (e.g. exchange controls, taxation, and currency devaluation) restrict foreign firms' access to financial markets and the flow of funds out of the country. Restrictions can also be imposed through trade barriers and price controls (Ahmed et al. 2002).

2.3.2.3 Operating risk

Operating risk refers to the possibility of sanctions that could constrain a firm's operations in the host country. More specifically operating risk arise from potential restrictions in logistics, marketing, finance, or other business functions imposed by a government or by political pressure from interest groups, or due to market conditions (Ahmed et al. 2002, Akhter and Lusch 1988, Rasheed 2005). According to Haner (1980), it includes the inability of the firm to enforce contracts, bureaucratic delays, the quality of local management, and the availability of skilled labour and raw materials.

2.3.2.4 Ownership risk

Ownership risk is defined as "the management's uncertainty about the host government's actions in the area of actual control over the firm and its assets, through measures such as expropriation, confiscation, domestication, and nationalisation" (Ahmed et al. 2002 p. 808, Akhter and Lusch 1988, Rasheed 2005). Firms involved in international business have to take into consideration ownership risk and the possible resulting loss of assets (Jeannet and Hennessey 1995).

The four risk factors described above is what Root (1987) described as the traditional risk factors. Brouthers (1995, p. 16) states that "firms must adjust their strategies based on their perceived level of these risk factors in the host country. In countries where these risk factors are perceived to be high, market complexity risk will also be perceived as being high. In this case, firms will use strategies that will minimise their exposure to these risks. If these risk factors are perceived as low (low market complexity risk), firms will choose strategies in which they provide a greater share of the resources".

2.3.2.5 Marketing infrastructure

Marketing infrastructure is defined as "the methods available within a market to sell, distribute, advertise, and promote a firm's product or service" (Ahmed et al. 2002, p. 808). Marketing infrastructure affects market complexity risks in two ways. First, lack of knowledge of marketing infrastructure. When firms advertise, distribute and/or sell based on home market experience without adjusting for differences in the host market, it can result in unfavourable outcomes (Brouthers 1995, Ricks 1983). Brouthers (1995, p.17) found that "once a commitment is made in the host market and then it is discovered that the marketing infrastructure does not correspond with past experience or knowledge, excess expenses may by incurred gathering of this new knowledge and experience. As a result, a firm's competitive advantage may disappear".

The lack of a secure and structured infrastructure can also affect risks. A firm's ability to distribute its products to its customers can have a huge impact on the performance of the firm. In some countries the physical component of the infrastructure is so poor or badly maintained, that it forces the firm to select a strategy different from the most preferred (Ahmed et al. 2002, Brouthers 1995). If the management perceives that the marketing infrastructure is similar to that of the home country, it will likely choose an entry mode strategy that contains elements similar to the successful home country strategy. In countries with huge differences, management would perceive increased levels of market complexity risks and would therefore have to use strategies that help minimize the impact of these risks – such as low resource commitment entry modes (Brouthers 1995).

2.3.2.6 Consumer taste

Consumer taste refers to similarities or differences between consumer taste and preferences in the home country and host country (Ahmed et al. 2002). Consumer taste is together with the other market complexity risks an endogenous variable, which a firm can only react to – not control. Consumer taste relates to all preferences of the customer – such as purchasing patterns and preferences for substitute products (Ahmed et al. 2002, Evans and Berman 1994). The firm must evaluate its willingness to invest in an environment where its products or services might be used differently than in the home country (Ahmed et al. 2002, Agarwal and Ramaswami 1992, Brouthers 1995).

Firms must identify what the consumers need, want, and will buy, then create a satisfying mix of goods and services from which buyers can select (Meloan 1995). It is important to notice that regarding consumer taste, risk is associated with the uncertainty created by a variation in consumer taste, not in shifts in consumer demand. The consumer demand risk factor is dealt with under Market Demand below. If consumer taste in the host country is similar to that of the home country, firms will prefer high resource commitment entry modes, and if consumer taste is perceived as being significantly different, firms will favour low resource commitment entry modes (Ahmed et al. 2002, Brouthers 1995).

2.3.2.7 Competitive rivalry

The competitiveness of a market affects a firm's ability to succeed in that market. Studies have shown that success and profitability of a firm in a foreign market are inversely related to the number of firms with which it must compete in the foreign market. A firm that has fewer competitors in the foreign market is more likely to succeed in that market than a firm facing many competitors (Ahemd et al. 2002, Brouthers 1995, Kim and Hwang 1992, MacMillian and Day 1987, Yoon and Lilien 1985).

It is necessary for a firm to analyse the structure of the industry in which it operates and examine its competitors on the basis of competitive characteristics – such as marketing strategies, competitors, firm size, competitive strategies, and channel competition (Ahmed et al. 2002, Evans and Berman 1994). If competitive rivalry is high, entering a market would be more difficult and management would perceive higher market complexity risks. If competitive rivalry is low, entering a market would be more difficult and firms would perceive higher market complexity risks. The entry strategy must be adjusted to reflect the level of competitive rivalry in the market (Brouthers 1995).

2.3.2.8 Market demand

Before entering a market firms must conduct customer research to determine market demand (Ahmed et al. 2002). Evans and Berman (1994) describe how market demand affects risk perception in two ways regarding both the current and future market demand. Brouthers (1995, p. 18) found states that "in countries that have a high demand for a firm's product, a firm would perceive little risk on entering. This low risk perception is based on the fact that a market already exists for the product and the market is sufficient in size to support the entry of an additional firm. In countries with low current demand but high predictions for future demand, risk perception is also believed to be moderately low, again because of the potentially large market for the product in the future. In markets where future demand is expected to be low market complexity risks are perceived as high, since the firm must command a large share of a small market to be profitable".

As it was the case with control risks, Brouthers (1995) found that firms must adjust their entry mode strategies based on the firms perception of market complexity risk. For markets where market complexity risk is perceived as being low, firms will use strategies that involve a high level of resource commitment. However, in markets with a high market complexity risks, firms must adjust their strategies to minimise the effect of the risks on the firm's performance and will most likely use low resource commitment entry mode strategies (Brouthers 1995).

Figure 1 below summaries the concept of total perceived international risk. As described above, studies have shown a connection between entry modes and perceived risk. Furthermore, it has been found in some studies that the various risk factors affect each other, and it therefore can be necessary to analyse risk under one. For most of the studies, firms selected entry modes which shifted risk to other firms if they perceived the risk being measured was high in the foreign host market.

Based on this, Brouthers (1995, p. 19) concluded "that as perceived international risk increases, firms will continue to react in a similar manner and select strategies that reduce the impact of the risk on the firm or choose entry mode strategies that shift the risk to another firm. In countries where perceived risk is low, firms will use high control and high resource commitment strategies and absorb most – if not all the risks".

Figure 3 – Total perceived international risk

Total perceived international risk

Control risk
1. Management experience
2. Cultural difference
3. Industry structure

Market complexity risk
1. Political risk
2. Transfer risk
3. Operating risk
4. Ownership risk
5. Marketing infrastructure
6. Consumer taste
7. Market demand
8. Competitive rivalry

Entry mode strategy

1. Exporting (non-equity)

2. Joint venture (equity)

3. Wholly owned subsidiary

2.4 Central and Eastern Europe

As the Soviet bloc began to disintegrate in 1989, the newly democratised countries of CEE began to promote market economies and opened their gates to international firms. These post-socialistic governments in CEE are in a transitional state that fosters an open market economy driven by democratization. It is therefore an attractive region in which to forge local business relationships through entries for firms seeking to create a local presence, expand operations, reduce production costs, increase market share, and improve distribution channels (Schoenberg 1998). However, because Western firms do not have a lengthy history of operations in CEE, a relatively high degree of uncertainty exists for many firms contemplating entry into the region (Rondinelli and Black 2000).

Relationships between Western firms and governments in CEE have been shaped by the region's struggle to shed legacies of central planning, and create growing market economies. This context has created special challenges for both Western firms and local governments to establish relations with each other, understand each other's needs, and to engage in mutually beneficial negotiations. The pace of reform depends on each country's so-called market memory (Wolf and Havrylyshyn 2002). Some countries were considered among the developed economies prior to World War II while others have gone directly from a feudal or early capitalist system to a socialist system (Meyer and Jensen 2004).

In transition economies as the ones of CEE, state owned enterprises are still important players and newcomers may find a partnership an important means to attain legitimacy (Hoskisson et al. 2000, Lyles et al. 2004, Peng and Heath 1996). Moreover, where state owned enterprises dominate the economy, they also control access to crucial local assets and old-style business networks. State owned enterprises in transition economies often pursue network-based growth strategies (Peng and Heath 1996), and may thus see a joint venture with a foreign partner as an opportunity to strengthen their market position (Fahy et al. 2000, Hitt et al. 2000). Thus, where state owned enterprises are strong, foreign investors may find it more difficult to prosper on their own. They may, therefore, seek partnership with local firms (Meyer and Nguyen 2005).

The most of entry mode research assumes that the firm has the option to choose any entry mode in a given market (Aulakh and Kotabe 1997). The choice of entry mode can become more complex for firms operating in transition economies, where they face high external uncertainty and internal constraints. A transition economy is a market that is growing and shows very good potential, also usually becomes a new focus for global attention. As stated above joint ventures and contractual agreements have traditionally been the state owned enterprises' of CEE preferred method of foreign participation (Hood and Young 1994).

Joint ventures and contractual entry modes require host country partners. However, desirable partners are not always available in new transition economies (Gatling 1993). Thus, Western firms making CEE market entry decisions may find their mode choice limited by their perceptions of CEE based firms, managers and employees (Brouthers et al. 1998). Shama (1995) conducted a survey of the entry strategies of U.S. firms into the ex-Soviet states, the Baltic States, and East European countries. His findings supported those of McCarthy et al. (1993) – namely, that the most popular entry strategies into the region are joint ventures and contractual agreements, and that despite its high risk.

In order to optimize control and reduce perceived risk, many Western firms make use of detailed and comprehensive contracts in relation to their foreign operations.

In CEE, contracts are not regarded with the same respect and are often disregarded after signing. While Western firms view a contract as the end of negotiations, many in CEE consider it just the beginning and to not strictly follow the terms outlined in the signed contract. Western firms recognise that contracts in this region do not hold the same power to reduce risk, thus, they turn to wholly owned subsidiaries rather than joint ventures (Paik 2005).

Researchers clearly suggest that risk and culture are the main entry barriers in the opened markets of CEE (Perlaki 1994, Welch 1993). As the CEE countries have opened up their markets, the cultural difference between those acting in a centrally planned economy and those from a market economy has been much

greater than earlier believed (Brouthers et al. 1998, Casson 1994, Puffer and McCarthy 1995).

For instance, Perlaki (1994) suggests (Brouthers et al. 1998, p. 488) that "the culture in CEE is characterised by (1) a highly centralised, strictly hierarchical structure, (2) a dislike for uncertainty, (3) a preference for formality and standardisation, and (4) strong collectivist attitudes". This cultural behaviour can lead to (1) ethical standards which substantially differ from those found in Western nations (Brouthers et al. 1998, Puffer and McCarthy 1995), (2) a lack of a Western consumer/marketing orientation (Brouthers et al. 1998, Ennew et al. 1993), and (3) a low level of trust for authority (Brouthers et al. 1998, Casson 1994). This cultural behaviour can have an impact on Western firm entries because they make the costs of finding, negotiating with, and monitoring a CEE-based partner extremely high (Brouthers et al. 1998).

Brouthers et al. (1998) found that market complexity risk tends to dominate the CEE entry mode decision. The market complexity risks in CEE are higher than normal for the following reasons; (1) poorly established legal infrastructures, making enforcement uncertain and costly (Brouthers et al. 1998, Welch 1993), (2) shortages of desirable CEE-based potential partners – if one partner does not work out alternative partners may not be available (Brouthers et al. 1998, Gatling 1993), and (3) low levels of trust found in CEE managers which means that they may not work well with managers from the home country (Brouthers et al. 1998, Casson 1994). Such high risk elements make it either much more difficult to use entry modes with shared control – such as joint ventures and contractual agreements, or impossible because the extra cost associated with these modes makes their use prohibitive in CEE (Brouthers et al. 1998).

An important type of market complexity risk in transition economies is operating risk, which refers to the perceived discontinuity or unpredictability of the changes of business environment and regulations. Firms facing high market complexity risk retain flexibility and shift risk to local firms or other parties (Meyer 2001). Western businesses entering transition economies like the ones in CEE also face high transaction costs. They lack information about local partners, they must negotiate with agents inexperienced in business negotiations, and they

face unclear regulatory frameworks, inexperienced bureaucracies, underdeveloped court systems, and corruption (Meyer 2001). Post-entry, firms may be concerned about the weak protection of intellectual property, which as shown by Oxley (1999) increases firms preferences for full-control entry modes (Meyer 2001).

In transition economies, the marketing infrastructure conditions as well as government policies toward foreign investment are important to the choice of entry mode. The demand in a transition economy can be defined as the actual demand of existing customers and the potential demand of local market. A firm can generally be expected to be more knowledgeable regarding its demand when it enters a transition economy to develop a global sourcing site, or serves its domestic customers who have already invested in that market. Therefore, this refers to firms preferring to maintain control over their operations and choose an entry mode with high involvement level and resource commitment (Erramilli and Rao 1990). The competitive structure and high production cost in e.g. Denmark encourages entry modes involving local production and influence the strategic objectives at the corporate level (Root 1994). The uncertainty of future demand conditions is likely to be greater in transition economies and embryonic industries in the host country (Harrigan 1988).

However, a firm may decide to enter a foreign market in the interests of remaining competitive on a global basis, the form of entry itself is shaped by the competition conditions of the market and the intensity of global competition. A transition economy is one where rapidly changing macro-economic, social, demographic and regulatory factors produce a situation of intense competition. Limits of adaptability to changing market and competition conditions lead firms to favour entry modes involving low resource commitments when competitive pressures in the host country are intense. Cooperation is a more flexible form of entry and exit as well as a useful means to improve competitive positioning (Harrigan 1988).

To summarise, below is listed some of the characteristics that are important to notice for a firm entering into CEE. First, behavioural and environmental risks are two of the main barriers to investment in these countries (Brouthers and

Brouthers 2003, Brouthers et al. 1998, Perlaki 1994, Welch 1993). Second, joint ventures and wholly owned subsidiaries are most common in these countries, despite potential legal restrictions (Brouthers and Brouthers 2003, Brouthers et al. 1998, Gatling 1993). Third, CEE markets are normally characterised by low trust cultures, creating high behavioural risk, an entry barrier for firms wishing to use joint venture modes of entry (Brouthers and Brouthers 2003, Casson 1994, Perlaki 1994). Fourth, researchers are suggesting that political, social and environmental risk are still perceived as very high in the region (Brouthers and Brouthers 2003, Brouthers et al. 1998, Gatling 1993, Welch 1993), providing a barrier to using wholly owned subsidiaries entry modes (Brouthers and Brouthers 2003, Erramilli and Rao 1993, Gatignon and Anderson 1988). Hence, CEE provided a good location for testing Danish firms' perception of risk in relation to entry modes. Worth mentioning is also, that although most firms report a high perceived risk in doing business in CEE, they feel that the sheer size and potential of these markets outweighs the risk (Shama 2000).

2.4 Risk tolerance

A measure for firm's risk tolerance was added as an experimental add-on to the model. Risk tolerance refers to an individual's attitude towards risk across situations – either being risk seeking or risk averse (Brush 2003, Levin and Stephens 1994). Generally risk tolerance can be classified along a continuum anchored between being completely risk averse and risk seeking (Westbrook 1996). Individuals with low risk tolerance attempt to minimize uncertainty, and avoid high-stake problems. A risk neutral individual is indifferent to adventure or security, where a risk seeking individual has a preference for situations with equivalent value, that have potentially higher payoffs with increased risk as opposed to certainty in outcomes (Brush 2003, Varian 1987).

Generally, risk is associated with a specific individual whereas the model developed below attempts to link risk to the firm and not the interviewee. However, the outcome should not be any different as all the interviewed persons all were senior management and key decision-makers. Researchers have found that executive decision-makers influence their firm's strategic decision-making processes (Brush 2003, Calori et al. 1994, Hambrick and Finkelstein 1987, Hitt and Tyler 1991), and risk tolerance is a crucial variable in managerial decision-making (March and Shapira 1987). On the other hand, MacCrimmon and Wehrung (1985) showed their subjects as more willing to take risks with their firm's resources than their own. So some cautions are needed in concluding whether the risk described is that of the interviewee or the firm or both. This is an area that still needs further research.

None of the existing literature on entry mode and risk assessment has included risk tolerance in their models. Furthermore, the add-on of the risk tolerance measure was done under the assumption that risk tolerance has an impact on perceived risk or/and entry mode. As not much research has been done in the area of a firm's risk tolerance, the method of measurement of risk tolerance used in this survey was party adapted from Brush (2003).

As the literature review indicates no research has been done on Danish firms' perceived risk and their entry into CEE. Furthermore, no known research has

included risk tolerance in relation to entry mode and especially not for Danish firms.

Based on the logic of the theoretical framework described in the literature review as well as the gaps described above, a testable hypothesis is developed. According to the theoretical framework, which is based on the work of Miller (1992) and Brouthers (1995), a firm adjusts its entry mode based on its management's perception of total international risk. For markets where total perceived risk is low, firms will use strategies that involve a high level of resource commitment. However, in markets that have high total perceived risk, the management must adjust its entry mode strategy to minimize the effects of risk on the firm's performance, hence, they will likely use a low resource commitment strategy.

The two main hypotheses are therefore:

H1: In countries where risk is low, firms will select entry strategies in which they can maintain control over the operation.

H2: In countries where risk is high, firms will select entry strategies which shift risks and control to other firms.

Further, several sub-hypotheses can be developed:

International experience:
H3: The greater the international experience, the greater is the likelihood that the firm will choose a high-control mode of entry.

Cultural difference:
H4: The greater the cultural difference between the home country and the host country, the lesser is the likelihood that the firm will choose a full-control mode.

Industry structure:
H5: The greater the concentration (few players) of an industry, the more likely it is that firms use high control entry modes.

Control risk in general:

H6: In markets where control risks are low, firms will select entry mode strategies in which they can maintain control over the operation.

H7: In host countries where control risks are high, firms will choose entry mode strategies which shift risks and control to other firms.

Political risk:

H8: The greater the political risk, the lesser is the likelihood that the firm will choose a full-control mode.

Transfer risk:

H9: The higher the transfer risk, the less likely a firm will be to choose a full-control entry mode.

Operating risk:

H10: The greater the operating risk, the less likely a firm will be to choose a full-control entry mode.

Ownership risk:

H11: The greater the ownership risk, the less likely a firm will be to choose a full-control entry mode.

Consumer taste:

H12: The more different the consumer taste, the less resources will be committed to the market in the entry mode.

Marketing infrastructure:

H13: The more different the marketing structure, the less resources will be committed to the market in the entry mode.

Competitive rivalry:

H14: If competitive rivalry is high, the less likely a firm will be to choose a full-control entry mode.

Market demand:

H15: If demand in a country is low, the less likely a firm will be to choose a full-control entry mode.

Market Complexity Risks in general:

H16: In countries where market complexity risk is perceived as being high, firms will select strategies that shift the risks to third parties.

3. Method

The following method was used in relation to measurement, surveying and analysis.

3.1 Risk measurement

Perceived risk can be defined as the defined as the business managers' opinions of the difference between the home market and host market (Ahmed et al. 2002 p. 810). In this case perceived risk was measured by looking at the differences and similarities between what the management of the firms were used to dealing with in the home country and the situation in the host country. The idea of measuring perceived risk this way is that, as the differences between the home and host country increase on the variables being measured, the perception of risk increases too (Ahmed et al. 2002, Brouthers 1995).

As the framework described above is based on the work of Brouthers (1995) and Ahmed et al. 2002, so are the risk measurements below.

The following three risk measurements are what Brouthers (1995) describes as the control risks (see chapter 2.3.1 for an in-depth description of control risk).

International management experience was measured by the number of years the firm had been operating in CEE. To also include experience gained outside the firm e.g. from previous employment, the interviewee's international management experience was also included. This question was asked under the assumption that the interviewee plays a central role in the decision-making process of matters relating to CEE.

As cultural difference refers to the similarities or differences between the cultures of the consumers in the home market versus the host market (Anderson and Gatignon 1986), the firms were asked to rate the cultural difference in the specific CEE country compared to Denmark from very similar to very different.

Industry structure relates to the degree of concentration of the industry. Industry structure was therefore measured by how many players there were and how unique the firms product or service is (Brouthers 1995).

The following eight risk measurements are what Brouthers (1995) describes as the market complexity risk (see chapter 2.3.2 for an in-depth description of market complexity risk).

Political risk reflects uncertainty about current political conditions and government policies that are deemed to be critical to the survival and profitability of a firm's operations in the host country (Agarwal and Ramaswami 1992, Akhter and Lusch 1988, Sanchez-Peinado et al. 2007). Therefore political risk was measured by the perceived political stability of the firm in relation to the specific country.

Transfer risk is defined as a government's ability to restrict the free flow of goods, services and funds into and out of the host country (Rasheed 2005, Root 1987). Transfer risk was therefore measured how restricted the firm found the country to be at the time of entry.

Operating risk refers to the possibility of sanctions that could constrain a firm's operations in the host country. More specifically operating risk arise from potential restrictions in logistics, marketing, finance, or other business functions imposed be a government or by political pressure from interest groups, or due to market conditions (Akhter and Lusch 1988, Rasheed 2005). Operating risk was therefore measured by the perceived likelihood of the host government enforcing restrictions on the firm's operations.

Ownership risk is defined as the management's uncertainty about the host government's actions in the area of actual control over the firm and its assets, through measures such as expropriation, confiscation, domestication, and nationalisation (Akhter and Lusch 1988, Rasheed 2005). Ownership risk was therefore measured by the firm's perceived likelihood of the host government taking over the firm's operations.

Consumer taste refers to similarities or differences between consumer taste and preferences in the home country and host country. Consumer taste relates to all preferences of the customer – such as purchasing patterns and preferences for

substitute products (Evans and Berman 1994). Consumer taste in the country was therefore measured by its similarities or differences to Denmark.

Marketing infrastructure refers to the methods available within a market to sell, distribute, advertise, and promote a firm's product or service (Brouthers 1995). The marketing infrastructure in the country was therefore measured by it similarities and differences to Denmark.

The level of competition of a market affects a firm's ability to succeed in that market. If competitive rivalry is high, entering a market would be more difficult and management would perceive higher market complexity risks. If competitive rivalry is low, entering a market would be more difficult and firms would perceive higher market complexity risks (Brouthers 1995). Competitive rivalry was therefore measured by how the firm experience the competition in the market and how it saw its development.

Market demand affects risk perception in two ways regarding both the current and future market demand (Evans and Berman 1994). Brouthers (1995, p. 18) found that "in countries that have a high demand for a firm's product, a firm would perceive little risk of entering. This low risk perception is based on the fact that a market already exists for the product and the market is sufficient in size to support the entry of an additional firm. In countries with low current demand but high predictions for future demand, risk perception is also believed to be moderately low, again because of the potentially large market for the product in the future. In markets where future demand is expected to be low market complexity risks are perceived as high, since the firm must command a large share of a small market to be profitable". Market demand was therefore measured by asking the firms about the current demand and the future potential for their products or services.

International experience was measured in years. All other variables were measured on a five point scale: (1) low risk and (5) high risk. This falls in line with other studies on perceived risk and entry modes (Brouthers 1995).

3.2 Entry mode measurement

Entry mode was grouped into three groups:

1. Wholly owned subsidiary
2. Joint venture
3. Exporting (non-equity)

This classification is widely used by other researchers in the area of entry mode strategy (Ahmed et al. 2002, Brouthers et al. 1993, Brouthers 1995, Buckley and Casson 1981, Contractor 1984, Czinkota et al. 1994, Erramilli and Rao 1990, Hill and Kim 1988, Hill et al. 1990, Hirsch 1976, Kim and Hwang 1992, Minor et al. 1991, Mirus 1980, Naumann and Lincoln 1991, Rugman 1981, Teece 1983, 1985, 1986, Young et al. 1989 – see e.g. Caves 1982 and Root 1987 for an extensive discussion).

A firm who had chosen wholly owned subsidiary as an entry mode was coded with the score 1, one who had chosen joint venture was coded with the score 2, and finally one who had chosen exporting was coded with the score 3.

To ensure the usefulness of the model, it was investigated whether it was possible for a foreign firm to obtain 100% ownership of its foreign operation in the 10 CEE EU countries.[3] The legislation from 1990 and onwards was investigated. This was done by contacting relevant authorities in all 10 countries. The results are as follow:

Table 3.2.1 Possibility of WOS for foreign firms in CEE

Country	Year	Source
Bulgaria	1992	Bulgaria Foreign Investment Agency
Czech Republic	1993	Slovak Investment and Trade Development Agency
Estonia	1992	Invest in Estonia
Hungary	1990	Hungarian Investment and Trade Development Agency
Latvia	1990	Investment and Development Agency of Latvia
Lithuania	1991	Lithuanian Development Agency
Poland	1991	Polish Information and Foreign Investment Agency
Romania	1990	Romanian Agency for Foreign Investment
Slovakia	1993	Slovak Investment and Trade Development Agency
Slovenia	1991	Public Agency of Republic of Slovenia

[3] Estonia, Latvia, Lithuania, Poland, Slovakia, Slovenia, Czech Republic, Hungary, Bulgaria, and Romania.

As a consequence of the information in table 3.2.1 above, only entries that have taken place after full ownership was possible for a foreign firm in the particular country have been included in the survey. The Czech Republic and Slovakia was the last countries out of the 10 to allow foreign firms full ownership over local subsidiaries – this happened on January 1 1993. For further details please refer to appendix 2.

As neither Brouthers (1995) nor Ahmed et al. (2002) have included control variables in their analysis in relation to entry modes and risk, these have therefore been not been included in this study. By control variable means control for e.g. firm size and industry – other factors that can affect entry mode choice.

3.3 Risk tolerance measurement

The model for measurement of risk tolerance is based on five areas identified by Brush (2003) as central in relation to a firm's risk tolerance. There was a question relating to each of these areas in the questionnaire. First, there was a question on whether the firm preferred certainty in its international business relations, even if it could involve a lower level of business performance. Second, whether the firm found research to be important before making a risky decision. Third, whether the firm only takes risks in areas it knows well. Fourth, whether the firm approaches business transactions with a high degree of caution. And finally, whether the firm preferred to participate in low-risk low pay-off ventures rather than high-risk high pay-off ventures (please refer to appendix 1 for further details).

The interviewees were asked to provide responses to these questions that reflected their firm's general attitude towards business risk, without reference to any specific business relationship or project. The answers were measured on a five-point scale bounded by strongly agree and strongly disagree.

Finally, it is important to stress that the information gathered through the survey is all subjective to the firms interviewed. All the perceived risk and risk tolerance measures are based on the firms' perception and none of it is related to a measurement confirmation by a third party.

3.4 Survey and data

Since Denmark is a small and open economy with a very limited domestic market, Danish firms have to internationalise their business successfully if they want to acquire a larger customer base. There should therefore be a good potential for useable survey material among Danish firms. The survey was completed among the members of Confederation of Danish Industry (DI).

DI is a private organisation funded, owned and managed entirely by 11,000 companies within manufacturing, trade and service industry – covering virtually all sub-sectors. A number of sectoral employers' associations and branch federations exist within DI's framework, being integrated in part or in full in DI[4].

The firms used for this study were selected at random among the members of DI with activities in Central and Eastern Europe. A random sample of 49 firms was selected. Data about each of these firms were collected in two stages. Secondary data about each of the selected firms was collected from its Internet site, DI database and KOB[5]. This research provided useful background information about the firms and the names of appropriate executive contacts.[6]

Each such executive was contacted by telephone and was asked to respond to the survey questions, then or at a mutually convenient time. Typically, it took 3-5 telephone calls to establish contact with the appropriate person. Some interviews were conducted as personal interviews. To add to this complexity, the titles of the executive contacted varied from Chief Executive Officer to Sales Manager to Exporting Manager – all senior management.[7] Follow-up interviews were conducted to alleviate any disparities in the collected data.

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[4] For more information about DI visit www.di.dk.

[5] The KOB is a Danish company database containing information about all registered companies in Denmark. For more information see: www.kob.dk

[6] In line with the work of John (1984), who argues for selecting knowledgeable informants, the choice of this respondent group was based on the belief that people in these positions are most knowledgeable on international entry projects and the dynamics of the overall foreign entry decision process.

[7] The survey comply with the ethical guidelines of Lincoln University, however it will not have to be approved by the Human Ethics Committee, because the people in the survey are interviewed in their professional capability.

Once contact was established, 67% of the executives agreed to answer the questions. The answers were recorded in the questionnaire – one for each country and entry. See appendix 1 for a translated version of the questionnaire in English. All interviews were conducted in Danish. To stay in line with the transition economy theories regarding CEE, only entries after 1990-93 were used. This is explained in further detail in appendix 2.

In some cases, the questionnaire was faxed or e-mailed because the interviewees did not have all needed information at the time of the interview.

The average interview took approximate 25 minutes to complete, which add up to a total interview time of 13 hours and 45 minutes.

Altogether, 49 firms were contacted and 44 responded, making the response rate 90%. 5 firms were not interested in participating in the survey. Out of the 44 positive responses, 11 had not had any activities in CEE and were therefore excluded from the survey, which resulted in a useable response rate of 67%.

The response rate of 67% compares very favourably with rates reported in other surveys that involve chief executive officers (Chang and Taylor 1999, Samiee and Walters 1991, Sanchez-Peinado 2007). Furthermore, the response rate compares very favourably with rates in other surveys in the entry mode literature Agarwal and Ramaswami (1992): 18%, Bello and Williamson (1985): 33%, Erramilli and Rao (1993): 44%, Kim and Hwang (1992): 15%, and Klein et al. (1990): 41%. Werner et al. (1996) did a study on entry modes and risk, which had a response rate 18%.

The questionnaire included questions on risk and entry mode, as well as risk tolerance.

3.5 Analytical methodology

The data from the questionnaires was first subjected to an independence test. For this a Fisher's Exact Test was used on the variables (expect for years of experience which are not categorical variables), as it is an exact method compared to for example the Chi Square test, which is approximate (Andersen et al. 1998). The test was used to test if the two distributions are the same. A p-value of less than 0.05 means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other and there is correlation. Whereas a p>0.05 means it cannot be rejected that the distributions are the same. This analytical method gives an indication of whether a firm is more likely to choose a specific entry mode based on their perceived risk, basically whether there is a correlation between entry mode and risk perception.

To get a measure of the correlation's practical impact (probability), the risk variables with p-values less than 0.05 (which were 8 plus the 2 variables for experience) were individually subjected to a binominal logistic regression analysis (Andersen et al. 1998). The entry mode was the categorical dependent variable and the perceived risks were the independent variables. Furthermore, the risk tolerance measures were also tested against the entry mode variable – again with the entry mode variable as the categorical dependent variable and the risk tolerance measures as independent variables.

The logistic model is: Pr(entry mode) = f(control risks, market complexity risks)

Based on the individual regression analysis of the 10 variables, the 7 variables which showed correlation (p<0.05) in this were subjected to a new regression analysis with all the variables in one model in an effort to identify the preferred model for the data. The preferred model is the one that describes the dataset best. By using Akaike's Information Criterion (AIC) the preferred model was identified. Before a new model was tested the variables with the highest p-value in the previous model was removed. This continued until model with the lowest AIC was identified – the preferred model.

As the majority of the surveyed firms answered the same in relation to perceived risk regardless of country of entry, most of the observations (answers) for the same firm are the same. These observations may therefore from a statistical point of view not be regarded as independent. An example could be that a firm with eight entries into CEE answered the same in relation to cultural difference for all eight countries. However, it could be argued that these observations are dependent the opposite could also be the case. As the dataset has multiple responses from many firms, it is not clear whether these should be treated as independent observations or not. Some of the issues that need to be considered are discussed in the next few paragraphs.

First of all, it could be argued that some firms regard a specific kind of risk the same regardless of country or region. As some of the firms in the survey have answered the same for all countries in CEE they have entered, they could possibly also have answered that for their markets in e.g. Western Europe – an example could be political stability (government take-over). Many firms regarded the risk of government take-over as minimal in all of the countries they have entered in CEE, which is probably also the case for their Western European markets.

Second, it can also be argued that because the firms have not been presented for the concept of CEE as one region consisting of quite similar countries, they do not regard it as such. They might score one type of risk similar across all countries and then another different for all the same countries. Therefore, it could be argued that the dependence between the entries is minimal if existing.

Third, it might be the case that the firm has the same level of perceived risk for all or a specific group of foreign markets. They might only have detailed knowledge about one or two of their markets and the rest they just group under one regardless of geographical location. This could be a question of resources, e.g. they do not have the manpower to follow the markets as close as they would like, or they do not have the financial resources to visit these markets often enough to have a sufficient level of knowledge.

Fourth, the firm might not have the capabilities to comprehend or act according to the various risk factors. Some firms might have the technical skills to produce their product but lack the skills of the international sales activities and therefore are not able to distinguish between the different countries in CEE or elsewhere. This all leads to the argumentation that even though a firm has answered the same for a couple of entries it is not enough to conclude that these answers (observations) are not independent.

As a consequence of this, the data was then weighted according to the 33 firms and the 8 variables that showed correlation in the Fisher's Exact Test together with the two experience measures were subjected individually to a binominal logistic regression analysis.

The data was written down on paper during the interviews and then entered into Excel 2007. All analysis was conducted using R 2.9.

4. Analysis and results

The 33 positive responses in the survey added up to a total of 173 entries. Out of these 27 (16%) had chosen wholly-owned subsidiary (WOS) as their entry mode, 3 (2%) joint venture (JV) and 143 (82%) had chosen to export (EXP) to the specific market. Because only 3 had chosen joint venture as their entry mode, these 3 was excluded from the survey. The number of observations in that category was too small to generate a robust analysis. The analysis thus focused on the differences between the two remaining entry modes: WOS and EXP. This categorisation appears to be common practice in entry mode research with highly skewed samples (Brouthers et al. 1998, Erramilli 1996).

The data therefore consist of 170 entries divided between 27 wholly-owned subsidiaries and 143 exporting entries.

Table 4.1 Entries per country

Country	EXP	WOS	Total
Bulgaria	10	0	10
Czech Republic	19	4	23
Estonia	14	3	17
Hungary	16	2	18
Latvia	14	3	17
Lithuania	14	4	18
Poland	18	6	24
Romania	11	3	14
Slovakia	12	2	14
Slovenia	15	0	15
Total	**143**	**27**	**170**

As table 4.1 above shows the entries are fairly even distributed among the CEE countries both in terms of exporting entries (EXP) and wholly-owned subsidiary entries (WOS). Poland had the most entries with 24 in total – 18 EXP and 6 WOS, and Bulgaria the fewest with 10 EXP and 0 WOS. As it has been concluded in previous research (Brouthers et al. 1998), this can lead to the assumption that the CEE countries can be regarded as one region. This is also supported by the fact that some of the respondents gave the same answer for all the countries they had entered, which can be seen as they regard the CEE as one region with the same level of risk. Furthermore, since the number of entries per country is too small to test separately, all CEE countries will be considered one homogenous group for analytical purposes – also done in Brouthers et al. 1998.

The 33 firms had an average number of employees of 136. This is significantly higher than the average Danish firm which in 2007 had in average 7.7 employees (Statistics Denmark 1).

Table 4.2 Distribution of firms according to number of employees

Number of employees	1	2-4	5-9	10-19	20-49	50-99	100+
Danish firms, per cent	40.2	26.3	14.7	9.8	5.9	1.9	1.2
Surveyed firms, number	0	0	2	3	8	6	13
Surveyed firms, per cent	0	0	6.2	9.4	25.0	18.8	40.6

Source: Statistics Denmark (2007) and own survey

As table 4.2. above shows, a large amount of the Danish firms only have one employee (40.2 percent) and 80 percent of the firms have less than 10 employees, whereas the surveyed firms have an almost opposite distribution with more than 80 per cent having more than 20 employees. This could indicate that the majority of Danish firms entering CEE have more employees than the Danish firm in general. An important factor in relation to this could be that over 40 per cent of all Danish firms only have one employee and almost two-thirds have fewer than five employees, and these smalls firms rarely have any significant export activities.

These employees also have a different distribution in the surveyed firms and the average Danish firm. Table 4.3 shows that the surveyed firms' 4.363 employees are distributed differently than the Danish firms in general. 84 per cent is employed in companies with more 100 employees whereas it is only 40 per cent for Danish firms in general.

Table 4.3[8] Employees distribution in Danish and surveyed firms

Number of employees	0-9	10-19	20-99	100+	Total
Danish firms, employees, percent	26.4	10.1	22.6	40.9	100
Surveyed firms, employees, number	16	42	630	3,675	4,363
Surveyed firms, employees, percent	0.4	1.0	14.4	84.2	100

Source: Statistics Denmark (2007) and own survey

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[8] The categories are different (fewer) in table 4.3 than in 4.2 as it was not possible to obtain the data from Statistics Denmark more detailed.

Together with the average number of employees this shows a significant difference in the Danish firms entering CEE compared to the average Danish firm. However, the uncertainty relating to the low number of surveyed firms must be taken into account.

The average number of years of international experience for the firms in the survey was 22.6 years. The firms' international experience had a spread of 2 to 48 years of experience.

The average number of years of CEE experience for the firms in the survey was 10.6 years. The firms CEE experience had a spread of 1 to 18 years of experience.

The remaining data has been organized in the frequency tables below.

Table 4.4 Frequency table – part 1

Variable	Entry mode	1	2	3	4	5
Cultural difference	WOS	18 (67%)	4 (15%)	3 (11%)	2 (7%)	0 (0%)
	EXP	38 (27%)	33 (23%)	30 (21%)	36 (25%)	6 (4%)
	Total	56 (33%)	37 (22%)	33 (19%)	38 (22%)	6 (4%)
Competitors	WOS	4 (15%)	9 (33%)	1 (4%)	9 (33%)	4 (15%)
	EXP	7 (5%)	24 (17%)	4 (3%)	64 (45%)	44 (31%)
	Total	11 (6%)	33 (19%)	5 (3%)	73 (43%)	48 (28%)
Similar products on the market	WOS	5 (19%)	7 (26%)	2 (7%)	6 (22%)	7 (26%)
	EXP	8 (6%)	28 (20%)	17 (12%)	56 (39%)	34 (24%)
	Total	13 (8%)	35 (21%)	19 (11%)	62 (36%)	41 (24%)
Political stability	WOS	23 (85%)	4 (15%)	0 (0%)	0 (0%)	0 (0%)
	EXP	91 (64%)	44 (31%)	8 (6%)	0 (0%)	0 (0%)
	Total	114 (67%)	48 (28%)	8 (5%)	0 (0%)	0 (0%)
Political impact	WOS	23 (85%)	4 (15%)	0 (0%)	0 (0%)	0 (0%)
	EXP	97 (68%)	24 (17%)	11 (8%)	8 (6%)	3 (2%)
	Total	120 (71%)	28 (16%)	11 (6%)	8 (5%)	3 (2%)
Trade restrictions	WOS	23 (85%)	0 (0%)	0 (0%)	4 (15%)	0 (0%)
	EXP	109 (76%)	10 (7%)	4 (3%)	17 (12%)	3 (2%)
	Total	132 (78%)	10 (6%)	4 (2%)	21 (12%)	3 (2%)
Government enforced restrictions	WOS	22 (81%)	4 (15%)	0 (0%)	1 (4%)	0 (0%)
	EXP	121 (85%)	3 (2%)	2 (1%)	14 (10%)	3 (2%)
	Total	143 (84%)	7 (4%)	2 (1%)	15 (9%)	3 (2%)
Government take-over	WOS	27 (100%)	0 (0%)	0 (0%)	0 (0%)	0 (0%)
	EXP	139 (97%)	2 (1%)	2 (1%)	0 (0%)	0 (0%)
	Total	166 (98%)	2 (1%)	2 (1%)	0 (0%)	0 (0%)
Consumer taste	WOS	25 (93%)	1 (4%)	0 (0%)	1 (4%)	0 (0%)
	EXP	81 (57%)	42 (29%)	6 (4%)	14 (10%)	0 (0%)
	Total	106 (62%)	43 (25%)	6 (4%)	15 (9%)	0 (0%)
Marketing	WOS	18 (67%)	8 (30%)	1 (4%)	0 (0%)	0 (0%)
	EXP	89 (62%)	34 (24%)	3 (2%)	13 (9%)	4 (3%)
	Total	107 (63%)	42 (25%)	4 (2%)	13 (8%)	4 (2%)

The data for cultural difference (the term described in chapter 3.1.2) shown in table 4.4 relates to the difference or similarities between the cultures of the consumers in the home market and those of the host market. Firms answering 1 indicates that they find the culture of the consumers in the specific country very similar to Denmark and firms answering 5 find the culture to be very different from Denmark. Sixty seven percent of the firms with a WOS entry found the consumer culture to be very similar to Denmark, whereas this was only the case for 27% of the firms with an EXP entry. Overall the perceptions are spread out, though only a few firms found the cultural difference to be very different from Denmark – none with a WOS entry. When a Fisher's Exact Test (FET) is applied to the data it gave a p-value of 0.003, which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

The data for competitors (the term described in chapter 3.1.3 under industry structure) shown in table 4.4 relates to the number of competitors the firm has in the specific country of entry. Firms answering 1 indicates they have one or two main competitors and firms answering 5 have many competitors. For firms with a WOS entry the distribution is quite even, though a majority have answered either 2 or 4. For firms with an EXP entry the majority seems to have quite a few competitors in the market. A Fisher's Exact Test applied to the data gave a p-value of 0.038 (p<0.05), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

The data for similar products on the market (the term described in chapter 3.1.3 under industry structure) shown in table 4.4 relates to the amount of similar products/services on the host market. Firms answering 1 indicates they have a unique product or services whereas firms answering 5 experience many similar products or services on the host market. For firms with a WOS entry the distribution is fairly even, whereas for firms with an EXP entry the majority finds there are quite many similar products on the host market. A Fisher's Exact Test applied to the data gave a p-value of 0.119 (p>0.05), and it can therefore not be rejected that the two distributions are the similar.

The data for political stability (the term described in chapter 3.2.1 under political risk) shown in table 4.4 relates to how the firm rates the political stability in the host country. Firms answering 1 indicates that the host country is highly stable politically, whereas firms answering 5 regard the country as highly unstable politically. The far majority of the firms – whether with a WOS entry or an EXP entry – regard the host countries as stable or highly stable politically. None of the firms regard any of the countries as unstable or highly unstable politically. A Fisher's Exact Test applied to the data gave a p-value of 0.088 (p>0.05), and it can therefore not be rejected that the two distributions are the similar. However, the zero observations in category 4 and 5 for both entry modes might have an increasing effect on the p-value.

The data for political impact (the term described in chapter 3.2.1 under political risk) shown in table 4.4 relates to if the firm foresee any impact on its operations caused by the political environment. Firms answering 1 indicates that they foresee no impact on their operations, whereas firms answering 5 foresee high impact on their operations caused by the political environment. The far majority of the firms have indicated no foreseeable impact or only a little impact (answer 1 or 2). The percentage for WOS entries is higher than for EXP entries when it comes to answer 1 (no impact). None of the WOS entries foresee any political impact above answer 2, and only a little minority of the EXP entries foresee political impact. A Fisher's Exact Test applied to the data gave a p-value of 0.399 (p>0.05), and it can therefore not be rejected that the two distributions are the similar. However, the zero observations in category 3, 4 and 5 for WOS might have an increasing effect on the p-value.

The data for trade restrictions (the term described in chapter 3.2.2 under transfer risk) shown in table 4.4 relates to whether the firm experienced any restrictions in relation to bringing goods, services and funds in and out of the host country. Firms answering 1 meant they found the country unrestricted and firms answering 5 found the country highly restricted. The far majority of the WOS entries (85%) did not meet any restrictions and the same goes for 76% of the EXP entries. A bit over 10% of the firms experienced some restrictions (answer 4). A Fisher's Exact Test applied to the data gave a p-value of 0.652

(p>0.05), and it can therefore not be rejected that the two distributions are the similar.

The data for government enforced restrictions (the term described in chapter 3.2.3 under operating risk) shown in table 4.4 relates to how likely the firms find it, that government enforced restrictions will affect their firm's operation in the host country. Firms answering 1 indicates that they find it very unlikely and firms answering 5 find it very likely. The majority of both WOS entries and EXP entries found the countries unrestricted in relation to government enforced restrictions. Less than 20% felt they met any restrictions. A Fisher's Exact Test applied to the data gave a p-value of 0.068 (p>0.05), and it can therefore not be rejected that the two distributions are the similar. However, the p-value is only slightly above 0.05.

The data for government take-over (the term described in chapter 3.2.4 under ownership risk) shown in table 4.4 relates to the risk of the government taking over the firm's operation in the host country. Firms answering 1 find governmental take-overs very unlikely and firms answering 5 find them very likely. It is very clear to see this is not a risk variable any of the surveyed firms find to be an issues regardless of entry mode. All WOS entries find governmental take-overs very unlikely, which is also the case with EXP entries (97%). Such similar distributions gave – when applied a Fisher's Exact Test – a p-value of 1.0 (p>0.05), which clearly indicates that it cannot be rejected that the two distributions are the similar.

The data for consumer taste (the term described in chapter 3.2.6) shown in table 4.4 relates to how the firms find the taste of the consumers of the host country compared to Denmark. Firms answering 1 found them very similar to Denmark and firms answering 5 found them very different from Denmark. In relation to WOS entries the far majority (93%) found them to be very similar to Denmark, whereas the distribution for EXP entries was a bit more uneven, though, still with the majority of firms finding it quite similar (86% answering either 1 or 2). None of the firms found the consumer taste to be very different from Denmark. A Fisher's Exact Test applied to the data gave a p-value of 0.003 (p<0.05), which

means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

The data for marketing (the term described in chapter 3.2.5 under marketing infrastructure) shown in table 4.4 relates to how the firms find the methods available to sell, advertise and promote their products in the host country. Firms answering 1 find the methods very similar to Denmark and firms answering 5 find them very different from Denmark. The two distributions are quite similar, which also is indicated in the p-value below. The majority of firms find they can use similar marketing methods in the CEE countries as they use in Denmark. A Fisher's Exact Test applied to the data gave a p-value of 0.122 ($p>0.05$), and it can therefore not be rejected that the two distributions are the similar.

The data for competition (the term described in chapter 3.2.7 under competitive rivalry) shown in table 4.5 below relates to how the firms find the current level of competition in the host market. Firms answering 1 find the competition almost non-existing whereas firms answering 5 find the competition very fierce. The majority of the WOS entries report some level of competition and none have been met by competition free market. The EXP entries report a slightly higher level of competition with over 75% stating the competition as fierce or very fierce (answering 4 or 5). A Fisher's Exact Test applied to the data gave a p-value of 0.002 ($p<0.05$), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

The data for competition development (the term described in chapter 3.2.7 under competitive rivalry) shown in table 4.5 below relates to how the firms find the development in the competition. Firms answering 1 find it declining and firms answering 5 find it increasing. Most of the WOS entries either find the competition stable or slightly increasing, whereas the EXP entries are leaning more towards increasing at a higher degree. A Fisher's Exact Test applied to the data gave a p-value of 0.007 ($p<0.05$), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

Table 4.5 Frequency table – part 2

Variable	Entry mode	1	2	3	4	5
Competition	WOS	0 (0%)	9 (33%)	5 (19%)	9 (33%)	4 (15%)
	EXP	3 (2%)	8 (6%)	23 (16%)	84 (59%)	25 (17%)
	Total	**3 (2%)**	**17 (10%)**	**28 (16%)**	**93 (55%)**	**29 (17%)**
Competition development	WOS	6 (22%)	3 (11%)	5 (19%)	12 (44%)	1 (4%)
	EXP	5 (3%)	9 (6%)	33 (23%)	72 (50%)	24 (17%)
	Total	**11 (6%)**	**12 (7%)**	**38 (22%)**	**84 (49%)**	**25 (15%)**
Market demand	WOS	10 (37%)	13 (48%)	1 (4%)	3 (11%)	0 (0%)
	EXP	42 (29%)	59 (41%)	27 (19%)	15 (10%)	0 (0%)
	Total	**52 (31%)**	**72 (42%)**	**28 (16%)**	**18 (11%)**	**0 (0%)**
Market potential	WOS	13 (48%)	14 (52%)	0 (0%)	0 (0%)	0 (0%)
	EXP	43 (30%)	63 (44%)	25 (17%)	7 (5%)	5 (3%)
	Total	**56 (33%)**	**77 (45%)**	**25 (15%)**	**7 (4%)**	**5 (3%)**
International business relations	WOS	22 (81%)	2 (7%)	1 (4%)	2 (7%)	0 (0%)
	EXP	78 (55%)	38 (27%)	19 (13%)	8 (6%)	0 (0%)
	Total	**100 (59%)**	**40 (24%)**	**20 (12%)**	**10 (6%)**	**0 (0%)**
Research	WOS	6 (22%)	12 (44%)	8 (30%)	1 (4%)	0 (0%)
	EXP	27 (19%)	82 (57%)	32 (22%)	2 (1%)	0 (0%)
	Total	**33 (19%)**	**94 (55%)**	**40 (24%)**	**3 (2%)**	**0 (0%)**
Core areas of knowledge	WOS	11 (41%)	13 (48%)	2 (7%)	1 (4%)	0 (0%)
	EXP	53 (37%)	58 (41%)	21 (15%)	11 (8%)	0 (0%)
	Total	**64 (38%)**	**71 (42%)**	**23 (14%)**	**12 (7%)**	**0 (0%)**
Caution in business transactions	WOS	8 (30%)	13 (48%)	4 (15%)	2 (7%)	0 (0%)
	EXP	53 (37%)	48 (34%)	11 (8%)	31 (22%)	0 (0%)
	Total	**61 (36%)**	**61 (36%)**	**15 (9%)**	**33 (19%)**	**0 (0%)**
Risk in ventures	WOS	19 (70%)	2 (7%)	2 (7%)	3 (11%)	1 (4%)
	EXP	68 (48%)	30 (21%)	29 (20%)	16 (11%)	0 (0%)
	Total	**87 (51%)**	**32 (19%)**	**31 (18%)**	**19 (11%)**	**1 (1%)**

The data for market demand (the term described in chapter 3.2.8) shown in table 4.5 relates to how the firms find the current market demand for their product or services in the host market. Firms answering 1 find there is a high demand and firms answering 5 find there is a low demand. The two distributions are fairly similar. None of the firms find the demand is low and the majority is leaning towards the high demand end of the scale – answering 1 or 2. A Fisher's Exact Test applied to the data gave a p-value of 0.240 ($p>0.05$), and it can therefore not be rejected that the two distributions are the similar.

The data for market potential (the term described in chapter 3.2.8 under market demand) shown in table 4.5 relates to how the firms expect the future market potential to be for their products in the host country. Firms answering 1 expect the potential to be high and firms answering 5 expect the potential to be low. All WOS entries are in the high end of the scale – answering either 1 or 2. Whereas the distribution for EXP entries is a bit more spread out, with more firms indicating the potential to be somewhat in between high and low. A Fisher's Exact Test applied to the data gave a p-value of 0.038 ($p < 0.05$), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

In table 4.5 are data that relates to whether the firms strongly agree (answer 1) or strongly disagree (answer 5) with the statement that their firm prefers certainty in its international business relationships, even if this could involve a lower level of business performance. The international business relations are part of the risk tolerance measurement described in chapter 2.4. The far majority of the WOS entries strongly agree with the statement (81%) and none strongly disagree. The distribution for the EXP entries is not that one-sided and more firms are leaning toward the middle of the scale. A Fisher's Exact Test applied to the data gave a p-value of 0.032 ($p < 0.05$), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

In table 4.5 are data that relates to whether the firms strongly agree (answer 1) or strongly disagree (answer 5) with the statement that research is important before making a risky decision. The research is part of the risk tolerance measurement described in chapter 2.4. The two distributions are quite similar with all answers leaning towards answer 1-3. None of the firms strongly disagree with the statement. A Fisher's Exact Test applied to the data gave a p-value of 0.491 ($p > 0.05$), and it can therefore not be rejected that the two distributions are the similar.

In table 4.5 are data that relates to whether the firms strongly agree (answer 1) or strongly disagree (answer 5) with the statement that their firm only takes risks in areas it know well. The core areas of knowledge are part of the risk tolerance

measurement described in chapter 2.4. There is two distributions are quite similar with most firms agreeing with the statement and no firms that strongly disagree. A Fisher's Exact Test applied to the data gave a p-value of 0.706 (p>0.05), and it can therefore not be rejected that the two distributions are the similar.

In table 4.5 are data that relates to whether the firms strongly agree (answer 1) or strongly disagree (answer 5) with the statement that their firm approaches business transactions with a high degree of caution. Caution in business transactions is part of the risk tolerance measurement described in chapter 2.4. The majority of the firms indicate some sort of caution and most are answering either 1 or 2 regardless of entry mode. None of the firms strongly disagree with the statement. A Fisher's Exact Test applied to the data gave a p-value of 0.124 (p>0.05), and it can therefore not be rejected that the two distributions are the similar.

In table 4.5 are data that relates to whether the firms strongly agree (answer 1) or strongly disagree (answer 5) with the statement that their firm prefers to participate in low-risk low pay-off ventures rather than high-risk high pay-off ventures. The risk in ventures is part of the risk tolerance measurement described in chapter 2.4. For the WOS entries most firms strongly agree with the statement, though a couple disagree. The distributions is not so one-sided for the EXP entries as they tend to be more spread out, though still with the majority of the firms agreeing with the statement. Hardly any of the firms strongly disagree. A Fisher's Exact Test applied to the data gave a p-value of 0.029 (p<0.05), which means the hypothesis of similar distributions can be rejected, indicating the two distributions are different from each other.

To summarise, the variables in table 4.6 below have all shown a relation between perceived risk and entry mode (p<0.05).

Table 4.6 Variables with correlation

Variable	P-value
Cultural difference	0.003
Competitors	0.037
Consumer taste	0.003
Competition	0.002
Competition development	0.007
Market potential	0.038
International business relations	0.032
Risk in ventures	0.029

To test how strong this relationship is the 8 variables were subjected to a binominal logistic regression analysis. The data for international experience and CEE experience were also subjected to the regression analysis to test for correlation and its strength.

Table 4.7 below summarises the results of the binominal logistic regression analysis conducted individually on the 10 variables listed. For each variable, a binominal logit was estimated with the dependent variable as entry mode (WOS or EXP).

Table 4.7 Binominal logistic regression analysis, individual

Variable		Estimate	Std. Error	z value	P-value
Int. experience	Beta	0.010	0.018	0.576	0.565
	Intercept	-1.93	0.516	-3.75	1.79E-04
CEE experience	Beta	0.196	0.061	3.22	0.001
	Intercept	-4.35	0.933	-4.66	3.21E-06
Cultural difference	Beta	-0.798	0.231	-3.45	0.001
	Intercept	-0.047	0.449	-0.106	0.916
Competitors	Beta	-0.471	0.161	-2.930	0.003
	Intercept	-0.056	0.554	-0.101	0.919
Consumer taste	Beta	-1.20	0.497	-2.42	0.015
	Intercept	-0.058	0.621	-0.093	0.926
Competition	Beta	-0.593	0.217	-2.74	0.006
	Intercept	0.460	0.774	0.594	0.552
Competition dev.	Beta	-0.625	0.191	-3.26	0.001
	Intercept	0.435	0.643	0.677	0.499

Market potential	Beta	-0.874	0.320	-2.73	0.006
	Intercept	-0.129	0.549	-0.235	0.814
Int. business relations	Beta	-0.502	0.297	-1.69	0.091
	Intercept	-0.904	0.468	-1.93	0.053
Risk in ventures	Beta	-0.225	0.210	-1.08	0.282
	Intercept	-1.26	0.421	-2.99	0.003

The seven variables from table 4.7 with p<0.05 was then subjected to a binominal logistic regression analysis together to find the preferred model. The result of this analysis is shown in table 4.8 below.

Table 4.8 Binominal logistic regression analysis, together – model 1

Variable	Estimate	Std. Error	z value	P-value
Intercept	3.08	1.65	1.86	0.063
CEE experience	0.144	0.061	2.38	0.017
Cultural difference	-0.601	0.254	-2.37	0.018
Competitors	-0.444	0.291	-1.53	0.127
Consumer taste	-1.13	0.589	-1.92	0.055
Competition	-0.022	0.356	-0.061	0.951
Competition dev.	-0.239	0.271	-0.880	0.379
Market potential	-0.917	0.422	-2.17	0.030

The Akaike's Information Criterion (AIC) for the model was 116.41. The AIC is a tool for model selection and gives an indication of which model that describes the data best – the lower the AIC the better. The AIC can be used to rank the models but the score should not be looked at in nominal terms – e.g. rejecting a model because the AIC is above a certain level (Burnham and Anderson 1998). The variable with the highest p-value (competition) was then removed and the analysis was run again – see table 4.9 for the results.

Table 4.9 Binominal logistic regression analysis, together – model 2

Variable	Estimate	Std. Error	z value	P-value
Intercept	3.07	1.64	1.87	0.062
CEE experience	0.144	0.060	2.38	0.017
Cultural difference	-0.599	0.250	-2.40	0.017
Competitors	-0.454	0.247	-1.83	0.067
Consumer taste	-1.14	0.572	-2.00	0.046
Competition dev.	-0.245	0.253	-0.969	0.333
Market potential	-0.920	0.421	-2.19	0.029

The AIC for the model was 114.42, which indicates that the model describes the data better than the previous model because of the lower AIC. The variable with the highest p-value (competition development) was therefore removed and the analysis was run again. Table 4.10 shows the result of this analysis.

Table 4.10 Binominal logistic regression analysis, together – model 3

Variable	Estimate	Std. Error	z value	P-value
Intercept	2.46	1.49	1.65	0.099
CEE experience	0.158	0.059	2.68	0.007
Cultural difference	-0.598	0.250	-2.39	0.016
Competitors	-0.589	0.205	-2.87	0.004
Consumer taste	-1.09	0.563	-1.94	0.053
Market potential	-0.935	0.420	-2.22	0.026

The AIC for the model was 113.36, which indicates that the model describes the data better than the previous model. The variable with the highest p-value (consumer taste) was therefore removed and the analysis was run again. Table 4.11 shows the result of this analysis.

Table 4.11 Binominal logistic regression analysis, together – model 4

Variable	Estimate	Std. Error	z value	P-value
Intercept	1.54	1.26	1.22	0.223
CEE experience	0.157	0.058	2.70	0.007
Cultural difference	-0.623	0.246	-2.54	0.011
Competitors	-0.630	0.195	-3.22	0.001
Market potential	-1.13	0.424	-2.67	0.007

The AIC for the model was 117.22, which indicates that the model does not describe the data better than the previous model, as the AIC has increased. Therefore model 3 (table 4.10) is the preferred model for the data.

Table 4.12 Probabilities for the preferred model (table 4.10)

Variable	Probability
CEE experience	16%
Cultural difference	-43%
Competitors	-43%

Consumer taste	-65%
Market potential	-59%

Table 4.12 shows the impact that a change in a single variable has on the probability of a WOS entry with the other variables in the preferred model at the sample means (table 4.10). By increasing the CEE experience (at the variables means) by 1 year the probability of using a WOS entry increases by 16%. If e.g. the level of perceived risk in relation to cultural difference is increases by 1 (on the score 1-5) the probability of the firm of using a WOS entry decreases by 43%.

The data was then weighted according to the 33 surveyed firms and the binominal logistic regression analysis was repeated for the 10 variables individually. The results are listed in table 4.13 below.

Table 4.13 Binominal logistic regression analysis, individual, weighted

Variable		Estimate	Std. Error	z value	P-value
Int. experience	Beta	0.011	0.036	0.296	0.767
	Intercept	-1.84	0.994	-1.85	0.064
CEE experience	Beta	0.095	0.094	1.01	0.312
	Intercept	-2.71	1.29	-2.10	0.036
Cultural difference	Beta	-0.607	0.493	-1.23	0.218
	Intercept	-0.313	1.04	-0.302	0.763
Competitors	Beta	-0.459	0.350	-1.31	0.190
	Intercept	-0.242	1.04	-0.233	0.816
Consumer taste	Beta	-1.82	1.41	-1.30	0.193
	Intercept	0.791	1.66	0.477	0.633
Competition	Beta	-0.430	0.454	-0.948	0.343
	Intercept	-0.115	1.56	-0.073	0.942
Competition dev.	Beta	-0.194	0.425	-0.457	0.647
	Intercept	-0.908	1.53	-0.595	0.552
Market potential	Beta	-1.02	0.712	-1.45	0.148
	Intercept	0.249	1.21	0.205	0.838
Int. business relations	Beta	-0.004	0.484	-0.008	0.993
	Intercept	-1.58	0.978	-1.61	0.107
Risk in ventures	Beta	0.177	0.394	0.448	0.654
	Intercept	-1.94	0.947	-2.05	0.041

As table 4.13 above shows none of the variables that showed correlation in the Fisher's Exact Test have showed significant correlation in the weighted binominal logistic regression analysis ($p<0.05$).

5. Discussion

The above mentioned results show a relationship between entry mode and perceived risk. The implications of these results are discussed below.

Rejected hypotheses

As the Fisher's Exact Test showed no correlation between entry mode and the amount of similar products on the host market hypothesis H5: the greater the concentration (few players) of an industry, the more likely it is that firms use high control entry modes, cannot be verified in relation to similar products on the market (see below for a partly verification in relation to competitors). However, when analysing the data regardless of entry mode there are indications that Danish firms in general experience many similar products on their markets in CEE. This could indicate that Danish firms are not generally active within very tight niches in CEE but to a higher degree see opportunities in areas already where other firms are active. It would be interesting to investigate whether Danish firms in general prefer not to be first movers, or whether they are so good at introducing a product to a market that other firms follow.

No correlation was found between either political stability or political impact and entry mode. Therefore it is not possible to verify hypothesis H8: the greater the political risk, the lesser is the likelihood that the firm will choose a full-control mode. When looking at the data regardless of entry mode it shows a very clear picture. The far majority of the surveyed firms found the CEE countries to be very political stable and did not expect any political impact in their operations (95% and 87% respectively). One explanation for this could be that with the EU membership and especially the phase prior to membership, the CEE countries had to align their legislation to EU legislation, thereby adapting legislation in many ways quite similar to that in Denmark. However, some firms gave the indication they did not know much or anything about the political environment of the country. Their answer was solely based on their own practical experience in the country and very few of the firms had had any interactions with the political environment whatsoever. As the firms had not experienced any political turmoil or unrest in the country, the assumption from the surveyed firms was often that the country was political stable. This lack of knowledge about the

political environment could be part of the explanation that no correlation was found between entry mode and political stability.

With the increased alignment with EU legislation most firms did not foresee any impact caused by the national or regional political environments. Some of the firms mentioned that the political impact they had experienced was the same for all their active markets within the EU and therefore there is no difference whether in Western or Eastern Europe. Furthermore, it has become clear that there is a limitation in the survey in relation to the time difference between the entry and an expected future political impact. This could also maybe be part of the explanation for the lack of correlation between entry mode and foreseeable political impact.

The majority of the firms that met trade restrictions when they entered the CEE country were some of the early pioneers that entered these markets right after 1990. All recent entries especially after the countries became EU members – whether WOS or EXP – indicated that they have not met any restriction. They find no difference compared to the EU markets in Western Europe. This could explain the lack of correlation: if the firms find there are no trade restrictions they do not or cannot act according to this. Because of the lack of correlation it has not been possible to verify hypothesis H9: the higher the transfer risk, the less likely a firm will be to choose a full-control entry mode.

As the CEE countries have aligned their legislation to that of the EU, it has moved many of them in the direction of fewer possibilities for government intervention in the business environment. Such an alignment with Western (and Danish) business legislation probably has an impact on the level of perceived risk the Danish firms entering CEE have. None of the companies saw a potential risk in the government taking over their operations and only 11% saw a risk in government enforced restrictions. This can lead to the tentative conclusion that Danish firms entering CEE do not regard government intervention as a risk. This agrees with the above finding that Danish firms regard CEE as a fairly stable political region. Thus, the Fisher's Exact Test showed no correlation between government enforced restrictions or government take-over and entry mode. It is therefore not possible to verify hypothesis H10: the greater the operating risk,

the less likely a firm will be to choose a full-control entry mode, and hypothesis H11: the greater the ownership risk, the less likely a firm will be to choose a full-control entry mode.

The Fisher's Exact Test showed no correlation between entry mode and marketing infrastructure (the methods available to sell, distribute, advertise and promote a firm's product or service). It is therefore not possible to verify hypothesis H13: the more different the marketing structure, the less resources will be committed to the market in the entry mode. The majority of the firms in the survey indicate the same methods were available for marketing as in Denmark. In the cases in which the firms did not have the same possibilities, it was mostly due to reported lack of technology (e.g., lower computer penetration, fewer consumers with internet access, etc.). Hence some marketing tools used successfully in Denmark were not possible to implement in the CEE country.

Some firms reported they had the same possibilities but the culture for marketing within their industry was different than in Denmark – e.g., a higher use of industry magazines or local trade fairs compared to Denmark. Therefore they had the same possibilities, but it required a fair amount of resources to navigate in a partly unknown marketing environment. It would therefore be interesting to investigate the correlation between the differences/similarities in marketing behaviour and entry mode, and not focus on the possibilities for marketing.

Most firms in the survey experienced high or very high demand for their products in the CEE countries. However the Fisher's Exact Test showed no correlation between market demand and entry mode. It is therefore not possible to verify hypothesis H15: if demand in a country is low, the less likely a firm will be to choose a full control entry mode (see below for a partly verification in relation to market potential).

Generally Danish firms do not regard the various risk factors described above as containing a level of risk that needs to be taken into consideration when entering a CEE market. This could be an explanation for the lack of relationship with entry mode choice.

The Fisher's Exact Test showed no correlation between entry mode and several of the risk tolerance measurements. However, regardless of entry mode, Danish firms are generally relatively risk averse and prefer to do research before making a risky decision, prefer to only take risks in areas they know well and approach business transactions with a high degree of caution.

When asked about whether the firms regarded the entry as a success or failure, 70% of the entries were regarded as successful or very successful (answered 1 or 2) and only 6% regarded their entry as a failure (answered 4 or 5). This falls in line with the result that only 1% of the firms would change their entry mode, if they got the chance today – even with their current level of knowledge of the country and market. There could be several explanations for this. First, all the firms really regard their chosen entry mode as the optimal. Second, there is a big difference between the needed resources and level of control of a wholly-owned subsidiary compared to an exporting mode (as described in chapter 2.1). Third, it is possible that the firms were not open-minded about how they regarded their level of success and therefore defended their initial entry mode.

Accepted hypotheses

Eight of the variables showed correlation in the Fisher's Exact Test. When these and the two experience variables individually were subjected to a binominal logistic regression analysis, two variables did not show any significant correlation ($p>0.05$). The first of these was the international experience measure and it is therefore not possible to verify hypothesis H3 in relation to years of international experience: the greater the international experience, the greater is the likelihood that the firm will choose a high-control mode of entry (see below for a partly verification in relation to years of CEE experience). The second of the variables was the risk in ventures measure, indicating that there is a weak correlation between firm's preference for risk in venture and entry mode. As with the other risk tolerance measures, Danish firms are relative risk averse when it comes to risk in ventures.

Below the preferred model is discussed:

Pr(entry mode) = f(CEE experience, cultural difference, competitors, consumer taste, market potential).

The competition variable initially showed correlation but is not included in the preferred model and significant correlation can therefore not be stated based on the regression analysis. However, the majority of the surveyed firms found the competition in the CEE countries they had entered to be quite heavy. The same goes for the competition development variable. It also showed initial correlation but not significant in the preferred model, and therefore hypothesis H14: if competitive rivalry is high, the less likely a firm will be to choose a full control entry mode, cannot be verified. Regardless of entry mode, the majority of the firms found the level of competition to be increasing in the countries they had entered in CEE. As it was the case with similar products on the market, this could indicate that Danish firms are not operating within a niche without competition in CEE but in sectors with several other active players. Whether this is because they prefer not to be first movers on the markets or they are so good at introducing a product to a market that other firms follow shortly after is a topic for future research.

In the Fisher's Exact Test the measure for caution in international business relations showed correlation with entry mode. However, the measure was not included in the preferred model and significant correlation can therefore not be stated in relation to the regression analysis. Regardless of entry mode and as with the other risk tolerance measures, the measure showed Danish firms are quite risk averse when it comes to caution in international business relations.

The Fisher's Exact Test and the binomial logistic regression analysis show a significant and strong correlation between entry mode and years of CEE experience. The more years of CEE experience the more likely is the firm to choose a WOS entry mode.

The probability of the CEE experience has been calculated to 16% (with the other variables at the sample means), which means that increasing the CEE experience by one year increases the likelihood of a WOS entry by 16%. The result shows that a firm with many years of CEE experience will choose a WOS entry mode. It

is therefore possible to partly[9] verify hypothesis H3: the greater the international experience, the greater is the likelihood that the firm will choose a high-control mode of entry. One explanation for this could be that firms with great knowledge about CEE have a more realistic picture of the challenges the entering firm meet in CEE. It is therefore possible to allocate the right resources and avoid the most common mistakes.

A careful explanation that years of CEE experience seems to have a greater impact on the entry mode choice than international experience could be that international experience is too complex an area to simplify into one measure. With the increased globalization of today's business environment there might be a difference with regard to geographical region compared to "just" international markets. There might be such a difference between the various regions that experience gained in one region is less useful in another region.

The analysis also showed a strong correlation between entry mode and cultural difference. The correlation shows that the lower the cultural difference the more likely the firm is to choose a WOS entry mode. The probability has been calculated at -43% (with the other variables at the sample means), which means that increasing the chosen response by 1 (e.g. from 3 to 4) the likelihood of choosing a WOS entry decrease with 43%. It is therefore possible to verify hypothesis H4; the greater the cultural difference between the home country and the host country, the lesser is the likelihood that the firm will choose a full-control mode. A reason for this correlation could be that if firms find the country to be culturally quite similar to Denmark they feel they have a better understanding of the country and are therefore willing to allocate more resources and want more control in relation to their entry.

It is important to notice that the verification of the hypotheses is under the assumption that the entries are independent observations and weighting the data is therefore not needed. The binominal logistic regression analysis of the weighted data (table 4.13) showed no significant correlation between entry mode and either of the variables. However, the variables with the lowest p-values in

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[9] The hypothesis can only be verified partly as the measure international experience did not show any significant correlation.

the weighted analysis are the same as the ones in the preferred model, which indicates results pointing in the same direction.

The third of the variables in the preferred model to show significant correlation with entry mode was competitors (the number of competitors in the specific CEE country). With a probability of -43%[10] (with the other variables at the sample means) the results indicate that the lower the number of competitors in a CEE country the more likely it is the firm will choose a WOS entry. It is therefore possible to partly[11] verify hypothesis H5; the greater the concentration (few players) of an industry, the more likely it is that firms use high control entry modes. If the firm only has one or two main competitors in the country, it is most likely competitors they know from other markets and therefore the unknown factors are minimal. On the other hand, if there is a huge amount of competitors the uncertainties are greater and the firm may not wish to allocate the resources or want the control necessary for a WOS entry.

The fourth variable in the preferred model to show correlation with entry mode was consumer taste. With a probability of -65% (with the other variables as the sample means) the results shows that the more different the consumer taste in CEE, the less likely it is the firm will choose a WOS entry. It is therefore possible to verify hypothesis H12: the more different the consumer taste, the lesser resources will be committed to the market in the entry mode.

The vast majority of the firms interviewed found the difference in consumer taste would decrease even more in the future. However, there were suggestions in the interviews of a difference between firms selling to business segment (B2B) and firms selling to the consumer segment (B2C). For B2B firms the difference in consumer taste seemed to be smaller than for B2B firms. There could be various explanations for this. One could be that the B2B firms of the host country to a larger degree is active in an international business environment, where local culture might not be so distinctive and it could be the case with B2C segment. This is an area that would be interesting to explore more into details in future research.

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[10] Exactly the same as cultural difference.
[11] It is only possible to verify the hypothesis partly because the measure similar products on the market also was part of this hypothesis and did not show any correlation.
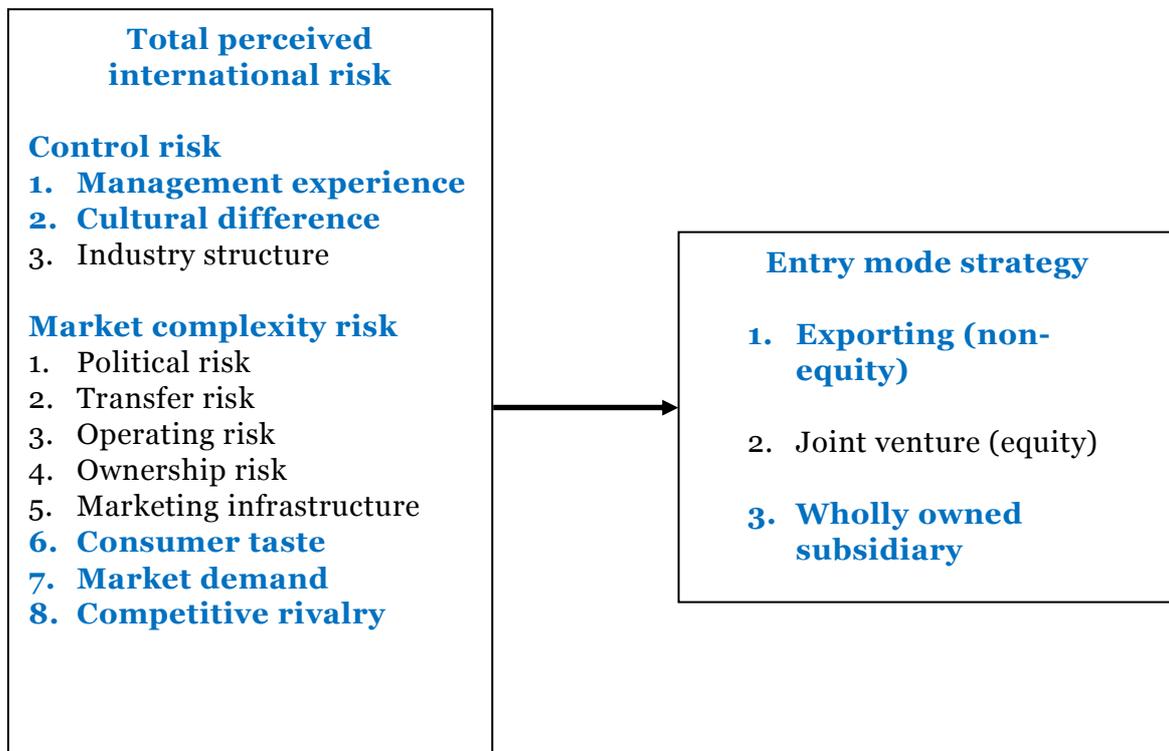
The fifth and final variable in the preferred model which has shown correlation with entry mode is market potential. The probability for market potential has been calculated at -59% (with the other variables at the sample means), which means that increasing the chosen response by 1 (e.g. from 3 to 4) the likelihood of choosing a WOS entry decreases by 59%. It is therefore possible to partly[12] verify hypothesis H15; if demand in a country is low, a firm will perceive high market complexity risk. An explanation for this correlation could be that firms who see a good future market potential are not motivated to share the possible profit with a local partner. With a solid market potential there is also room for the firm to make mistakes without then resulting in complete failure in the market. Furthermore, with a good market potential the firm is probably also willing to invest more resources as the future prospects are good.

In the special case of Danish firms entering CEE it is possible to verify the control risk hypotheses: H6: in markets where control risks are low, firms will select entry mode strategies in which they can maintain control over the operation, and H7: in host countries where control risks are high, firms will choose entry mode strategies which shift risks and control to other firms. Furthermore, the market complexity risk hypothesis H16 can be verified either: in countries where market complexity risk is perceived as being high, firms will select strategies that shift the risks to third parties.

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[12] It is only possible to verify the hypothesis partly because the measure of market demand also was part of this hypothesis and did not show any correlation.

Figure 4 below summarizes findings.

Figure 4: Risk variables affecting entry mode choice

Total perceived international risk		**Entry mode strategy**
Control risk		
1. **Management experience**		1. **Exporting (non-equity)**
2. **Cultural difference**		
3. Industry structure	→	2. Joint venture (equity)
Market complexity risk		3. **Wholly owned subsidiary**
1. Political risk		
2. Transfer risk		
3. Operating risk		
4. Ownership risk		
5. Marketing infrastructure		
6. **Consumer taste**		
7. **Market demand**		
8. **Competitive rivalry**		

6. Conclusion

6.1 Summary

The literature review described the research in the fields of entry mode, risk, characteristics of CEE and finally risk tolerance. In the review it was found that entry mode choice is a question of wish for control and resource allocation. The various entry mode choices were divided into 3 groups: exporting (non-equity), joint venture (equity) and wholly owned subsidiary.

The existing literature on risk describes many different risk variables, but based partly on the work of Brouthers and Ahmed, a risk-entry mode framework was described. A risk tolerance measure was added to the model in order to investigate a possible connection between entry mode choice and risk tolerance. Finally, the transition of the CEE countries from plan economies to more open market economies and members of the EU was described.

A random sample of Danish firms with activities in CEE was then selected among the members of DI. They were given a questionnaire. This gave a survey with a response rate of 67%. Thirty-three firms participated in the survey and they had 170 useful entries into CEE between them. The responses were then analysed using a Fisher's Exact Test and a binominal logistic regression analysis. The results were then presented and discussed. Below is outlined the main results of the research.

The preferred model is a probabilistic model that links the probability of entry mode choice with 5 risk variables (two control risk variables and three market complexity risk variables):

Pr(entry mode) = f(CEE experience, cultural difference, competitors, consumer taste, market potential)

The preferred model showed the various perceived risk variables have influence on the entry mode decision of the firm. First, the model showed a very strong correlation between years of CEE experience and entry mode choice. The more years of CEE experience the more likely the firm is to choose a WOS entry. Second, the preferred model showed a strong correlation between entry mode

and cultural difference. The smaller the cultural difference between Denmark and the respective CEE country the more likely it is that the firm will choose a WOS entry. Third, the model showed a significant correlation between the number of competitors in a CEE country and the entry mode choice. The more competitors in a CEE country the less likely it is the firm will choose a WOS entry. Fourth, the model showed a significant correlation between consumer taste and entry mode. Fifth and finally, the preferred model showed a clear correlation between future market potential and entry mode choice. The more promising the market potential, the more likely it is the firm will choose a WOS entry.

Regardless of entry mode choice the thesis also showed some relative clear results. Danish firms regard CEE as political stable and do not fear any political impact on their activities. In addition, they do not see a potential risk in the local CEE government taking over their operations and they do not see a risk in relation to government enforced restrictions. Danish firms experience relatively high and increasing competition and quite many similar products on the CEE markets. The majority of the surveyed firms indicate the same methods are available for marketing in CEE as in Denmark.

There several indications that the CEE markets in which Danish firms are active have relative high competition. First of all, the majority of the firms report high levels of competition. Further, the majority also see this competition as increasing and they experience many similar products on the markets. This could indicate that Danish firms are primarily active within non-niche sectors in CEE.

In the special case of Danish firms entering CEE the analytical results tend to support the findings of other researchers (Brouthers et al. 1996, Miller 1992, Werner et al. 1996) that firms must consider multiple measures of risk in making their entry mode decision. As described above, the reason for this is that risk is a multifaceted measure and some risk measurements seems to interact with each other.

The analysis of the data of the risk tolerance measures shows a clear indication that Danish firms are predominately risk averse and take a cautions and

measured approach to risk. Furthermore, risk tolerance seems to a certain degree to have an impact on entry mode.

Because both risks within the control risk variables and market complexity risk variables showed to have influence on entry mode choice, it is possible to verify the two main hypotheses in the special case of Danish firms' entries into CEE: H1: In countries where risk is low, firms will select entry strategies in which they can maintain control over the operation, and H2: In countries where risk is high, firms will select entry strategies which shift risks and control to other firms.

As stated earlier, selecting the right entry mode for an international market is one of the most critical managerial decisions and affects the long-term success of a firm. Furthermore, managing risk is one of the major strategic objectives for managers of multinational firms. Firms choosing a strategy which incorporates international risk perform better than firms that do not take risk into consideration. The results of this research should therefore be taken into considerations in the special case of Danish firms entering CEE.

6.2 Practical implications

From the results mentioned above several policy recommendations can be made. If policy makers sought to increase Danish trade and engagement with the CEE countries in EU, there are several results that could be relevant to take into consideration. As the analysis showed, the majority of the surveyed firms had a more than 50 employees and 40% had more than 100 employees, where only 1.2% of Danish firms in general have more than 100 employees. This could indicate that any policy initiatives should be targeted towards firms with more than 50 employees, preferably more than 100 employees.

Secondly, it would be wise to target firms with many years of CEE experience as they are more likely to allocate more resources and wanting more control – WOS entry. CEE countries with a low cultural difference compared to Denmark should have main priority, as should countries with few competitors and a solid market potential.

From a policy design point of view, it is wise to take the following results into consideration. Danish firms regard CEE as political stable and do not fear any government intervention. Danish firms experience relatively high and increasing competition in CEE, however, the same methods are available for marketing in CEE as in Denmark.

As stated above all firms in the survey were successful. In markets with similar culture and consumer taste to Denmark, few competitors and a good market potential, firms should therefore consider choosing a WOS entry mode. If these conditions are not present it would be advisable for firms to choose and EXP entry mode. Furthermore, firms with many years of CEE experience should consider a WOS entry. If they do not have this experience, they should consider hiring a manager with extensive CEE experience to ensure a successful entry into CEE.

Firms are generally satisfied with the entry mode they have chosen, so instead of promoting a specific entry mode, the Danish or CEE government should work with the firms based on their chosen entry mode.

6.3 Limitations

There could be a confounding issue as the firms have been asked about an entry that took place up to 18 years ago and some of the risk perceptions are linked to a current situation. For example the firms are asked whether they foresee any impact on their operations caused by the political environment (a future risk) and at the same time they are asked whether they were met by any trade restrictions when they entered the host country (a present risk). These are two events at two different times. In future research, there should be a closer link (shorter period of time) between the entry and the perceptions. The firms could for example be asked about their most recent entry and perceptions in relation to it, or research could focus only on entries that were not more than a couple of years old. This would ensure there was closest possible link between the entry and the perceptions. However, this would require a much higher number of interviews, which is outside the scope of this thesis. To examine how and why these risk perceptions and entry modes evolve and change over time long-term

research is needed, whereas this survey more was a single snapshot of a situation.

As described, 70% of the firms in the survey regarded their entry as successful and only 1% of the firms would change their entry mode, if they got the chance. This could suggest that the firms were not that open-minded about how they regarded their level of success and therefore chose to stick with their initial entry mode. It could be interesting for future research to look more into depth whether there is a correlation between the perceived level of success of a firm's entry mode into a market and its willingness to change this entry mode if a specific level of success is not reached.

An issue for discussion is which approach should be taken in relation to the binominal logistic regression analysis – whether the data should be weighted or not. In some cases the non-weighted data showed a correlation between entry mode and a particular perceived risk, whereas as soon as the data was weighted this correlation was lost. This could indicate that there might be a possibility that this correlation would be more obvious if the number of surveyed firms was increased. It could indicate that the experience of a few firms with many entries are driving these findings. It is difficult to be concrete about the weighting but it opens up a further area of study.

The low sample size is clearly a limitation for the study. It is not possible to comment on sectors, firm size or any other characteristics of the firms due to the low amount of firms surveyed. It would be advisable to increase the number of surveyed firms in future research or focus on e.g. a specific sector.

As stated above, there is an indication that Danish firms are primarily active within non-niche sectors in CEE. Whether this is because Danish firms in general prefer not to be first movers or they are so good at introducing a product to a market that other firms follow shortly after could be interesting to investigate further. Furthermore, the analysis showed quite clearly that Danish firms are relative risk averse. A suggestion for future research could be to identify the reasons for this and also the level of risk tolerance compared to firms from other countries.

In some cases the Danish firms had the same marketing possibilities as they had in Denmark, but due to a different marketing culture it required a fair amount of resources to navigate in a partly unknown marketing environment. A topic for future research could therefore be to investigate the correlation between the difference/similarities in marketing behaviour and entry mode, and not focussing on the possibilities for marketing.

The limitations have directed the research as only successful firms whose entries have survived are included in the survey. Furthermore, the low sample size has made it impossible to investigate e.g. sector characteristics.

6.4 Contributions

First of all, only a few studies have examined international risk as a whole, even fewer have examined the relationship between integrated risk and entry mode decision. This study showed a clear relationship between integrated risk and entry mode choice.

Second, it seems to be the first empirical study of perceived risk and entry modes among Danish firms and especially in relation to CEE. Due to the special case of Danish firms' entry into CEE it was possible to accept the two main hypotheses.

Third, no known research has included risk tolerance in relation to entry mode research and especially not for Danish firms. The study showed no clear relationship between risk tolerance and entry mode, but found that Danish firms are clearly risk averse.

7.1 Appendix 1: Questionnaire

Company:_____ CVR no:_____ Number of employees:_____

Interviewee:_____ Phone:_____

No.	Risk	Country					
1	-	Entry mode (WOS:1, JV:2, EXP:3)					
2	MaEx	How many years of international experience do your firm has? (Years)					
3	MaEx	How many years of international experience with CEE do your firm has? (Years)					
4	CulDif	Do you find the culture in the country to be different from the one in Denmark? (1): very similar to Denmark, (5): very different from Denmark					
5	IndStr	How many competitors do you have in this country? (1): one or two main competitors, (5): many competitors					
6	IndStr	Are there many products/services similar to yours in the market? (1) unique product/service, (5): many similar products/services					
7	PolRis	How would you rate the political stability in this country? (1): highly stable, (5): highly unstable					
8	PolRis	Do you foresee any impact on your operations caused by the political environment? (1): no impact, (5): high impact					
9	TraRis	When you entered the country, did you meet any restrictions in relation to bringing goods, services and funds in and out of the country? (1): unrestricted, (5): highly restricted.					
10	OptRis	How likely do you find it, that government enforced restrictions will affect you business in the country? (1): very unlikely, (5): very likely					
11	OwnRis	What do you think is the risk of the government taking over your firm's operations in this country? (1): very unlikely, (5): very likely					
12	ConTas	How do you find the taste of the consumers in the country compared to Denmark? (1): very similar to Denmark, (5): very different from Denmark					
13	MarInf	Do you find the methods available to sell, distribute, advertise and promote your					

		product/service similar or different from Denmark? (1): very similar to Denmark, (5): very different from Denmark					
14	ComRiv	How do you find the competition in the market? (1): almost non-existing, (5): very fierce					
15	ComRiv	How do you find the development in the competition? (1): declining, (5): increasing					
16	MarDe	What do you think is the current market demand for your products in this country? (1): high demand, (5): low demand					
17	MarDe	What do you think is the future market potential for you products in this country? (1): high potential, (5): low potential					
18	-	Do you regard your entry as a success? (1): Success, (5): Failure					
19	-	With the knowledge you have today, would you enter this country differently? (WOS:1, JV:2, EXP:3)					
20	RiskTol	Your firm prefers certainty in its international business relationships, even if this could involve a lower level of business performance? (1): strongly agree, (5): strongly disagree					
21	RiskTol	Research is important before making a risky decision? (1): strongly agree, (5): strongly disagree					
22	RiskTol	Your business only takes risks in areas it knows well? (1): strongly agree, (5): strongly disagree					
23	RiskTol	Your firm approaches business transactions with a high degree of caution? (1): strongly agree, (5): strongly disagree					
24	RiskTol	Your firm prefers to participate in low-risk low pay-off ventures rather than high-risk high pay-off ventures? (1): strongly agree, (5): strongly disagree					

Country codes: ES: Estonia, LA: Latvia, LT: Lithuania, PL: Poland, SLK: Slovakia, SLO: Slovenia, CZ: Czech Republic, HU: Hungary, BUL: Bulgaria, and RU: Rumania.

Notes:

7.2 Appendix 2: Possibility of WOS in CEE

Bulgaria

According to the Bulgarian Foreign Investment Agency it has been possible for foreign firm to own subsidiaries in Bulgaria since January 1 1992.

Czech Republic and Slovakia

January 1 1993 was Czechoslovakia peacefully divided into the two independent countries Slovakia and the Czech Republic. Jozef Marusik from the Slovak Investment and Trade Development Agency informs that from January 1 1991 it was possible for foreign firms to have full ownership rights. This law was after January 1 1993 adopted by both countries.

Estonia

According to Margu Mihkelsoo from Invest in Estonia it has been possible for foreign firm to own subsidiaries in Estonia since January 1 1992.

Hungary

According to the Hungarian Investment and Trade Development Agency full ownership of a local firm has been possible since 1990.

Latvia

Investment and Development Agency of Latvia informs that foreign firms have had full ownership rights in Latvia since 1990 – "According to the Law of the Republic of Latvia, adopted on 26 September 1990 „Foreign (enterprise) company subsidiary office and representations in the Republic of Latvia and subsidiary offices and representations of enterprises of the Republic of Latvia abroad may have legal person status, if the laws of this countries foresee subsidiary offices or representations of those status"

Lithuania

Audrius Masiulionis from Lietuvos Ekonomines Pletros Agenturain (Lithuanian Development Agency) informs that full foreign ownership of firms in Lithuania has been possible since 1991.

Poland

Marek Szostak from Foreign Investment Department, Polish Information and Foreign Investment Agency informs that full foreign ownership has been possible in Poland since 1991. "Polish transformation after 1989 has created the possibility to foreign companies to enter Polish market in a bigger scale that it was possible during the communist regime. The possibility to buy Polish company by a foreign one arise since coming into force the Law from June 14, 1991 on companies with foreign share. Article 1 of mentioned law has created the freedom to undertake the business activity in Poland by foreign enterprises".

Romania

Before 1990 foreign participation in joint ventures in Romania could not exceed more than 49 % according to Decree 424 from November 2 1972. According to article 2 from Decree 96 from March 14 1990 the legal possibility for setting up companies with full foreign ownership was introduced in order to attract foreign investments to Romania. Source: Romanian Agency for Foreign Investment, Secretary General Raluca Gheorghe-Anghel.

Slovenia

According to Matej Skocir from Public Agency of Republic of Slovenia for Entrepreneurship and Foreign Investments it has been possible for a foreign firm to have full ownership of a local firm since 1991 – a law that has been adjusted in 1993 and again in 1999.

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