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Assessment of Factors Influence Entry Mode Choice of Companies (Foreign Companies in Ethiopia)

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Abstract
In today's globalized world companies enter international market in different ways. They face difficult decision with regards to the choice of entry mode since their choice of entry mode is influenced by different factors. Considering this, the study tried to investigate factors influencing the choice of entry modes of companies investing in Ethiopia. Specifically the study tried to investigate internal (product factors, company size and international experience) and external factors (target country market, production, environmental and firms home country factors) influencing entry mode choice of companies. This study used a survey research design and it is a Cross sectional surveys in which data are collected at one point in time. This study is explanatory research type by its nature and data was collected through close ended questionnaire. In addition to this the study used a three stage sampling techniques (purposive, stratified and simple random sampling) and drawn 98 foreign owned companies using Yamane,(1967 sample size determination formula. The study used both descriptive statistics and econometric analysis. A multinomial logit model was used to investigate factors influencing the choice of entry mode. The study found that company's size is positively and statistically significant influence the choice of joint venture over green field investment, also firms home country factors is negatively and statistically significant influence the choice of joint venture over green filed investment, in addition, international experience was positively and significantly influence the choice of acquisition over green field investment and target country production factor are statistically significant in choosing joint venture relative to green field investment.
Keywords: entry mode, entry mode choice, joint venture, Greenfield investment, acquisition

Introduction

Now a day the international market is a field of game to companies all over the world. Companies which face high local competition will search other markets as their destination. Kaffash et al, 2012) states that, as internationalization increases in today's business society, it becomes ever more important for individual business to keep with the development.

Globalization, technological advances, easier information flows and changes in the organizational structures are all recent trends facilitating companies' ability to operate on an international scale (Cancellieri, 2008). Entry mode choice is one of the most important decisions in the internationalization process, because of its implications for performance and its long-term consequences for the firm(Werner, 2002).

In recent times many multinational companies are entering in to developing countries to benefit from low labor and raw material cost, abundant resource, low market competition etc. Recent trends indicate developing countries are trying to follow the globalizing dimension, whereby conditions are being created for a more favorable investment climate through relaxation of investment controls and provision of investment incentives including better protection of property rights and enforcement of contracts (Agarwal and Ramaswami, 1992).

Among these developing nations of Africa Ethiopia is the country which opens its economy to the foreign companies after the down fall of the socialist Derg. According to UNCTAD, (2002) Ethiopia has worked tirelessly to transform its economy from a closed, highly regulated, centrally planned and dominated public sector to an open, deregulated and market based economy. The government of Ethiopia has realized the inadequacy of the domestic capital and opened several economic sectors to foreign investors.

2 Statement of the problem

As stated by Rasheed (2001), growth through expansion in foreign market has become positively popular strategy, as closed foreign markets open, and economies around world becomes globalized.

Different researchers stress that entrance in to the international market needs wise decision. Dehghan cited in (Sadaghiani *et al*,2011) states that entry strategy to international markets is one of the main elements in international marketing strategies of the companies for competing in international markets which plays a vital role in their success or failure. Important issue for firms considering conducting business overseas is the choice of market entry mode (Chung and Enderwick, 2001). Agarwal and Ramaswami (1992) added that Firms interested in serving foreign market face a difficult decision with regard to the choice of an entry mode.

Though different entry modes are suggested by different researchers, no acceptable conclusion has been

made on how firms internationalized whether they are entering into developed or developing countries and what factors influenced firms choose their strategy Agarwal and Ramaswami,1992 and Stiegert et al,2006).

Researchers proposed different factor which determines the selection of entry mode even though there is no agreement on which specific factors are significantly affect it. Kumar and Gelb (2004) concluded that key determinants of the choice of entry mode are the resource needs of the MNC and the business/institutional environment in the host country. Agarwal and Ramaswami (1992) depicted factors that determine the choice of specific foreign market entry mode in three categories: ownership advantage of a firm, location advantage of a market, and internalization advantage of integrating transactions. Koch (2001) classifies these factors as internal factors: (Company size/resources, Management locus of control, anticipated overseas market risks, Market share targets) and External facts :(Characteristics of the overseas country, Business environment, Market barriers, Market growth rate, Global management efficiency requirements). Mukli *et al* (2009), points out the key determinants that affect the foreign investors are market size and growth of the country, corporate international experiences and know-how, local knowledge and psychic distance.

As presented above researchers forwarded different modes of entry in to international market and the factors which determine the choice of entry modes. However there are no agreed factors that determine choosing a specific entry mode. Taking this in consideration this study tries to assess foreign market entry strategies and specific factors which determine the choice of entry modes of foreign companies in Ethiopian.

The research tries to answer the following research questions.

- ✓ What are entry mode choices of companies?
- ✓ What factors influence entry mode choice of companies?

3 Objective of the study

The general objective of this study is to assess factors influence entry mode choice of companies (foreign companies in Ethiopia).

Specific objective includes,

- To assess entry mode choice of companies
- To investigate factors influence entry mode choice of companies

4. LITERATURE REVIEW

4.1 Entry mode

According to Root (1987) an international market entry mode is an institutional arrangement that makes possible the entry of company's products, technology, human skills, management, or other resources into foreign countries. Entering new foreign markets may be achieved in a variety of ways. Each of these ways places its unique demands on the company in terms of organizational and financial resources (Belu, 2008). Foreign market entry strategies are numerous and imply a varying degree of risk and of commitment from an international firm. In general, the implementation of an international development strategy is a process achieved in several steps (Twarowska, 2013).

4.2 Classification of market entry modes

According to Kaffash et al (2012) there are several entry modes to global markets that enterprises select one of them according to their resources, products, conditions of internal market, available opportunities in global market, previous experiences. Even though there are different types of modes to enter in to foreign market, Mwiti(2013) states that there is no complete listing of mode structures that exists or available for those choosing to invest.

According to Anderson and Gatignon (1986) a firm seeks to perform a business function (e.g., production management, distribution) outside its market must choose the best "entry mode" (institutional arrangement) for the foreign market. Hierarchical model of entry modes states that the main criterion for the choice of entry mode is whether the company engages in equity or non-equity entry modes.

According to Peng, cited in Charles (2007) nonequity entry modes often require less financial and organizational resources and capabilities of the organization than equity modes. Also, cost, commitment, risk, return, and control involved is often more limited than in case of equity entry modes. Charles (2007) divided foreign country entry modes in to four categories; export, contractual agreements, joint ventures and wholly owned subsidiaries. Each category has several subcategories.

4.2.1 Joint Venture

Joint ventures occur when parties agree to create a new company together by contributing equity, so they share in profits, losses, and control of the enterprise (Charles, 2007). While firms have the ability to develop differentiated products, they prefer joint venture mode of entry in high potential markets and markets that have high contractual risk (Agarwal and Ramaswami 1992). Brouthers and Werner (2007) depicted that joint ventures decreases downside risk exposure by limiting resource commitments (like independent exporting modes),

providing a means to delay part of the investment until more is known.

4.2.2 Foreign direct investment (FDI)

FDI is an investment in which a multinational enterprise acquires a substantial controlling interest in a foreign firm or in some other manner establishes fixed assets on foreign soil (Stiegert e tal , 2006). According to Mukli *et al*, (2009), foreign Direct Investment is a very important economic development factor in a country. Mpofu (2013) tries to explain the importance of FDI as the host country has the ability to communicate and control 100% of the investment that may outweigh any of the disadvantages of joint ventures and licensing. Stiegert *et al*, (2006) depicted that unlike pure trade, FDI usually involves such a long term irreversible commitments, which has higher risks.

As Twarowska (2013) explains that there are two primary ways for direct investments: direct acquisition and Greenfield investment.

Greenfield investment

Twarowska (2013) points out that Greenfield investment is the establishment of a new wholly owned subsidiary and to building factories and offices from scratch. Buckley and Casson (1998) indicate that entry through Greenfield investment increases local capacity and intensifies competition, whereas entry through acquisition does not.

Acquisition

As stated by Bedi and Kharbanda (2014) Acquisition is situation when a company buys most or the entire ownership stake of another company in order to assume control of the target firm. Acquisition is lower risky than Greenfield investment because the outcomes of an acquisition can be estimated more easily and precisely (Belu and Caragin, 2008). Acquiring a firm in the host country enables a MNC to retain control of its "technology", reduces or eliminates the cost of pulling resources together to build a firm, and endows it with both business relationships and knowledge about the local markets and institutions (Kumar, 2004).

4.3 Factors Influencing Selecting Entry Mode to foreign Markets

Companies may use different entry modes in order to enter external markets and there are many factors greatly influencing on this decision. Root (1987) and Koch (2001) classified these factors as internal and external factors.

4.3.1Internal factors

Kaffash et al (2012) tries to explain that, internal factors are factors influencing on decisions of organization in relation to mode of entering to external markets. Charles (2007), and Sivakumar (2004) described internal factors (alternatively called "organizational factors") are a source of a firm's strategic posture. An internal factor includes Product factors, Company Size/resources, Market share targets, and Profit targets.

Product factors

Root, (1987) on the part of designing entry strategies for international markets explains that very distinguishing product with specified benefits compared to competitive product, offers considerable pricing value to the seller. Charles (2007), points out the product factors of a company are divided in five parts that influence the choice of entry mode namely product differentiation, required pre- and post-service, service strategy plan for foreign target country, technology intensive products, and adaptation of products.

Company Size/resources

The size of a firm is often an indicator of its competitive advantage in financial, physical, human, technological, or organizational resources (Sivakumar, 2004). The size of the firm reflects its capability for absorption of these costs (Agarwal and Ramaswami, 1992). According to Koch (2001) smaller companies usually have fewer market servicing options, as their very limited own resources may simply not allow, or discourage them from, some market entry modes.

International experience

Evans (2008) identified international experience as the most important predictor of entry strategy selection and it was found to have a positive influence on entry strategy. Also internationally experienced retailers are more likely to enter foreign markets through high cost/high control strategies. Firms without foreign market experience are likely to have greater problems in managing foreign operations(Agarwal and Ramaswami, 1992).

4.3. 2External factors

External factors are factors out of direct control of organization that are able to influence selecting entry mode to market (Kaffash et al, 2012). External factors are variables over which the organization has little or no control (Sivakumar, 2004).

Target country market factors

Current size of market and its projection in future of the target countries market has great influence on entry mode. Another aspect of target market is its competitive structure. Complete competitive market is more appropriate for complete exclusive or multi exclusive market; in which, entering it requires selecting suitable investment method to enable enterprise for over-coming dominant enterprises (Root, 1987). Charles (2007)

divided the target country market in three factors that influence the choice of entry mode. The factors are market size, competitive structure and marketing infrastructure.

Market size

Countries that have relatively lower market potential can be expected to have a lower likelihood of attracting foreign firms (Agarwal and Ramaswami, 1992). According to (Root 1987) Small markets favor entry modes that have low breakeven sales volumes (indirect and agent/distributor exporting licensing, and some contractual arrangements). Conversely, markets with high market potential can justify entry modes with high breakeven sales volumes (branches/ subsidiary exporting and equity investment in local production.)

Competitive structure

Intensity of competition is measured by the number of competitors of a firm in a foreign country (Tepjun, 2016). The level of competition in the target market affects entry mode strategies (Chen & Mujtaba, 2007). In target countries where competition is judged too strong for both export and equity modes a company may turn to licensing or other contractual modes (Root 1987).

Marketing infrastructure

According to Ekeledo and Sivakumar (1998), marketing infrastructure is a combination of financial institutions; advertising agencies and marketing research companies. when the marketing infrastructure is non-existing or of poor quality, an exporting company may, for example, decide to use a branch/subsidiary entry mode (Root, 1987).

Target country production factors

Root (1987) and Charles (2007) divided Target country production factors in materials, labor, energy, and economic infrastructure which have considerable influence on decisions for entry to market. Each factor will be analyzed by their quality, quantity and cost Lower wages of labor, cheaper raw materials and land enable global firms to reduce production costs and achieve cost efficiency (Stefanovic, 2008).

Target country environmental factors

Root (1987) stated that political, economic, cultural, geographical distance and social property of target market has considerable influence on selecting entry mode to market and the most important of them is governmental regulations and policies in relation to international business.

Home country factors

As Charles 2007 point out, the important hoe country factors are market size, competitive structure, economic structure, production cost in comparison to target country, and the policy of the home country government towards exporting and foreign investment by domestic firms. Having great local market enables enterprise to growth enough before entering international market. Competitive structure of origin market influences on entry mode. Enterprises in exclusive industry prefer to imitate their rivals (Root, 1987).

Hypothesis

Internal factors

H_1: Product factors positively influences the choice of joint venture and acquisition over green field investment.

H_2: Company size positively influences the choice of joint venture and acquisition over green field investment

H_3: Previous International experience positively influences the choice of joint venture and acquisition over green field investment

External factors

H_4: Home country market factors positively influences the choice of joint venture and acquisition over green field investment

H_5: Target country production factors positively influences the choice of joint venture and acquisition over green field investment

H_6. Target country environmental factors positively influences the choice of joint venture and acquisition over green field investment

H_7: Firm home country factors positively influences the choice of joint venture and acquisition over green field investment

5. Methodology

The study used a Cross sectional surveys in which data are collected at one point in time from a sample selected to describe some larger population at that time. This study is an explanatory research type by its nature.

This research used quantitative data collected through questionnaire. The study uses both primary and secondary source of data. The primary data was collected through close ended questionnaires. The questionnaires included both multiple choice questions and Likert type with a five points of rating scale.

The target populations for this study are the foreign companies found in Addis Ababa which are 470 in number and are actually in operation within the study period.

First purposive sampling employed to select the best representative study area which was Addis Ababa Since most of the companies are operating in Addis Ababa and around Addis Ababa. After selecting the study

area the researcher used stratified sampling. Proportional stratified sampling used because this method allows taking a proportional number of sampling units selected from each stratum of the population. To distribute questionnaires the researcher used simple random sampling technique.

By using (Yamane, 1967) mathematical formula the researcher took 98 companies as sample of the study.

Both descriptive and econometric analysis approaches are used to investigate the research questions. Multinomial Logit model was used to analyze factors influencing choice of entry modes since the entry modes provided in this study are more than two choices.

5.1Multinomial logit model

Multinomial logistic regression is used to predict categorical placement in the probability of category membership on a dependent variable based on multiple independent variables and it is a simple extension of binary logistic regression that allows for more than two categories of the dependent or outcome variable (Moske, 2011). Hutcheson (2010) depicted that multinomial logistic regression allows each category of an unordered response variable to be compared to a reference category, providing a number of logistic regression models.

To evaluate the probability of categorical membership like binary logistic regression, multinomial logistic regression uses maximum likelihood estimation. As clearly stated by Moske (2011), Multinomial logistic regression is considered an attractive analysis because; it does not assume normality, linearity, or homoscedasticity.

5.2 Model specification

As part of the study, this paper is examined via multinomial logit model for the inherently unordered multiple categorical dependent variables. Thus, for the econometric part analysis the different entry modes are analyzed as alternatives without implicit order. In a nutshell, there were three entry modes: GI (0), AC (1), and JV (2). Because the nature of the dependent variable is polychotomous whose value is more than two therefore multinomial logit model is applied.

The decision to enter international market through acquisition, joint venture, or Greenfield is modeled as a qualitative choice problem. As a result, multinomial logit model is specified to estimate the effect of the factors of the explanatory variables on the probability that each of the three alternatives would be chosen. Multinomial logit by its nature didn't show the magnitude or direction of change of categorical variable as a result of the magnitude change of the explanatory variables. Therefore, the result of this study from multinomial logit is analyzed via the marginal effect in order to reveal the magnitudinal change of the factors which influence the choice of entry modes. So, the coefficient vector is specific to the alternatives provided, not to the specific firm making the choice (Judge et al, 1985 cited in Kogut and Singh, 1988). Consequently, the specification of the probabilities is

$$P_{ij} = \exp(X_{ij}B_j) / \sum_{i=0}^{j=2} \exp(X_{ij}B_j) \quad \text{..... (1)}$$

Adopted from Kogut and Singh, (1988)

Where P_{ij} is the probability that the i^{th} firm will choose alternative j, x_{ij} is a vector of variables representing the variables characterizing the i^{th} firm and the jth governance mode and Bj is the vector of coefficients to the independent variables. Since the sum of probabilities is must be one, the system of equations is over identified. By setting the Bj of one of the alternatives to 0 the parameters can be estimated. In this model, it stands to reason to use Greenfield investment as the baseline case (reference category) by which to compare the estimated parameters of the other alternatives (joint venture or Acquisition). Under this condition, the specification is reduced to:

$$P_{ij} = \exp(X_{ij}B_j) / 1 + \sum_{e-1}^{2} \exp(X_{ij}B_j) \quad \text{..... (2)}$$

With the baseline alternative specified as

$$P_{ij} = 1/1 + \sum_{e-1}^{2} \exp(X_{ij}B_j) \quad \text{..... (3)}$$

The parameters (Bj) are estimated by maximizing a log likelihood function using the Newton-Raphson iteration procedure.

5.3 Variables

The dependent variable is the choice of entry mode. Respondents indicated their choice preference among three

alternatives including , joint venture, Greenfield investment and acquisition.
Dependent variable=entry mode choice
Independent variable=Factors influence entry mode choice
Internal factors- Product factors, Company Size and International experience
External factors- Target country market, production, environmental factors and Home country factors.

5.4 Variable Measurement

The dependent variable is entry mode choice. As mentioned earlier, there are different main types of entry strategy but this paper focuses on three of them namely Greenfield investment (GI), Acquisition (AC) and Joint venture (JV) of which respondents indicated their choice preference among three alternatives. The researcher defined the Greenfield investment (GI) mode as the base category and assigns a value of 0 to it. The, AC and JV models are assigned the values of 1,and 2 respectively.

Because many factors influencing the choice of market entry modes have been suggested in the literature, it is not possible to include all the factors in a single study (Anderson and Coughlan, 1987).

Table5.1: Descriptions of variables used to estimate using multinomial logit

Variables	Description of variables
Compsize	Company size
Prdtfactors	Product factors
Targcrymktf	Target country market factors
Trgcntenvfac	Target country environmental factors
Frmhomcofact	Firms home country factors
Trgctrprdnfc	Target country production factors
Inteexp	International experience

6. Discussion

6.1Descriptive statistics

Table 6.1Country of companies

Variables	Items	Frequency	Percentage
country	China	21	23.33
	India	13	14.44
	Saudi Arabia	8	8.89
	Italy	3	3.33
	Germany	7	7.78
	Dutch	3	3.33
	South Africa	2	2.22
	Turkey	6	6.67
	Israel	6	6.67
	Britain	5	5.56
	USA	7	7.78
	Belgium	2	2.22
	Kenya	3	3.33
	Sudan	2	2.22
	Yemeni	2	2.22
	Total	90	100.00

According to Fu (2012) Ethiopia has been the number fifth destination of China's manufacturing FDI. As depicted in the table chine's companies take the highest percentage with relative to other countries which accounts 23.33 percent followed by Indian and Saudi Arabia companies with a percentage share of 8.89 and 14.44 respectively. An Asian giant China and India accounts 37.77 percent of companies which came to Ethiopia compared to European, American and African companies. Generally Asian (China+ India+ Saudi Arabia+ Yemeni +Israel) companies take the lion share in this study with a share of 55.55 percentages. European (Italy + Germany + Belgium + Britain + Dutch + turkey) companies take the second place with 28.89 percentage share. American and African companies take the third and fourth position with the share of 7.78 and 7.77 percentages respectively.

Descriptive statistics of number of employees and international experience

Variable	Obs	Mean	Std. Dev.
Number of employees	90	109.13	33.17
International experience	90	8.11	4.40

So as depicted in the table, the average number of employees employed in these companies were109 and

the average experience that the companies have in serving international market was around 8years. This shows that most of the companies have good experience in serving the international market.

Entry mode choice

Entry mode choice of companies

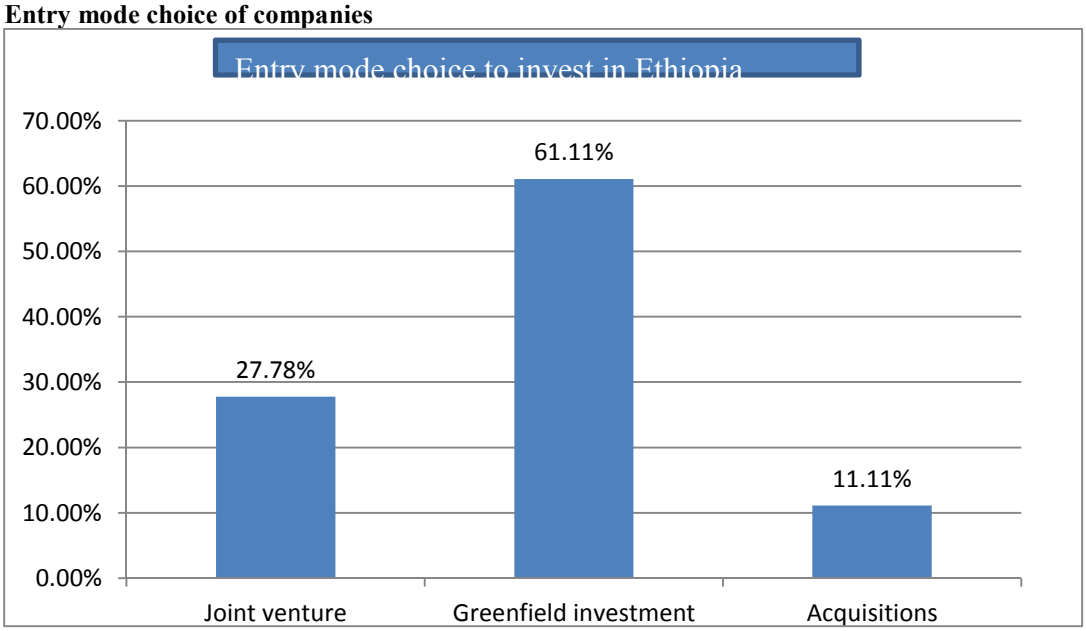

Figure 6.1: Entry mode choices to invest in Ethiopia

The above figure shows the way companies enter to Ethiopian market. As presented in this figure 25(27.78%) of the companies come through joint venture, the majority which are 55 in number(61.11%) come through Greenfield investment and the other 10(11.11%) through acquisition. since Greenfield investment has the highest share the researcher used this entry mode type as base category for the multinomial logit modal in this study.

6.2 Econometric Analysis

The major objective of this study was to assess entry mode choice of companies and factors that influence entry mode choice. To achieve this multinomial logit model has been used.

6.2.1. Factors influence entry mode choice

In this section, Multinomial logit econometric model was used to see the relative influence of company's internal and external factors.

First, for this study the estimation of the multinomial logit model is undertaken by normalizing one category that is normally referred to as the "reference state or the "base category." In this analysis technique the first category (green field investment) is the reference state. As part of the study, the researcher investigates the choice of the company's entry mode in Ethiopia market in relation with making the decision to engage in the market to have a market share. First of all, the result of the multinomial logit model and its parameter estimate provides merely the direction of the effect of the independent variables on the dependent or response variables.

Thus, the estimated result does not represent the magnitude of change or probabilities. From the fact that, the marginal effects from the Multinomial logit model which measure the expected change in probability of a particular choice being made with respect to a unit change in an independent variable are reported and discussed in table below. In all cases the estimated coefficients should be compared with the base category of green field investment in response to the choice of entry mode.

Result of multinomial logit model about factors influence entry mode choice

Joint venture

Explanatory variable	Coefficient	Std. Err	P>|z|
Compsize	.0307493	.0100327	0.002***
Prdtfactors	.1746503	.1934039	0.367
Targcrymktf	-.2097855	.3835534	0.584
Trgcntenvfac	-.0357626	.3142279	0.909
Frmhomcofact	-.9269058	.267247	0.001***
Trgctrprdnfc	.3861568	.2124485	0.009***
Inteexp	-.0009986	.0064193	0.876
_cons	-5.59265	1.803921	0.002***

Acquisition

Compsize	.0303654	.0117893	0.010*
Prdtfactors	.0180778	.2443018	0.941
Targcrymktf	.2174093	.4883073	0.656
Trgcntenvfac	.1784283	.4327264	0.680
Frmhomcofact	-.2192279	.3206754	0.494
Trgctrprdnfc	.5530546	.3822175	0.148
Inteexp	-.0981273	.0835501	0.240
_cons	-7.858086	3.178495	0.013
Dependant variable: Entry mode choice(if 0=Joint venture 1=Green field investment 2= Acquisition Number of obs = 90 LR chi2(14) = 37.75 Prob > chi2 = 0.000 Log likelihood = -61.390 Pseudo R2 = 0.235			
Note: * Significant at 10%; ** significant at 5%;*** significant at 1%.			

Source: Author's own computation 2014, survey data

The estimation result of multinomial logit model revealed that, some of the explanatory variables have statistically significant effect in choosing Joint venture and acquisition relative to base outcome green field investment. Company size measured in numbers of employees that the company have is statistically significant in choosing joint venture and acquisition in relative to green field investment at 1 and 10 percent probability level. Also, firm's home country factors and target country production factor are statistically significant in choosing joint venture relative to green field investment at 1 percent significant level. However, other factors failed to statistically affect choice of joint venture and acquisition relative to green field investment. If a coefficient is insignificant it does not mean that its variable is completely irrelevant. It only means that the variable does not affect the choice between that alternative and the base alternative.

Factors influencing entry mode choice from Multinomial logit

Joint venture

Explanatory variable	Coefficient	Std. Err	P>|z|
Compsize	.0045631	.00178	0.010*
Prdtfactors	.0275568	.03449	0.424
Targcrymktf	-.0511996	.06842	0.454
Trgcntenvfac	-.0229359	.05732	0.689
Frmhomcofact	-.1308156	.04491	0.004***
Trgctrprdnfc	.0621773	.03625	0.086
Inteexp	.0004353	.00138	0.752

Acquisition

Compsize	.0005861	.00064	0.361
Prdtfactors	-.0009341	.00636	0.883
Targcrymktf	.0067133	.01381	0.627
Trgcntenvfac	.0048458	.01192	0.684
Frmhomcofact	.0017989	.00818	0.826
Trgctrprdnfc	.0120383	.01489	0.419
Inteexp	.0027635	.00135	0.004***
Note: * Significant at 10%; ** significant at 5%;*** significant at 1%.			

Source: Author's own computation 2014, survey data

With the models of different response data, interpreting with marginal effect is an important tool for discussion and presentation of data's. Marginal effect indicates that the effect of a one unite change in an explanatory variable has on the probability of different response outcome variable. The coefficient in multinomial logit model does not show any degree of effect of the independent variable on dependant variable rather it shows the direction of the effect, i.e. ether positive or negative sign. However, the marginal effect in multinomial logit model shows that the direction on how the explanatory variable affects the dependant variable in each response.

As the model result shows above, company size measured in numbers of company's employee is positively and statistically significant in affecting the choice of joint venture over the green field investment at 10 percent probability level. This implies that, as the numbers of employee increases by one person, the likelihood of choosing joint venture increased by approximately 0.5 percent as compared with green field investment and this result is supported by Mansour and Hoshino (2002) also Quer, et al(2012) finds that firm size has a significant

negative impact on a wholly owned subsidaries. But it contradicts with the findings of Agarwal and Ramaswami(1992) as they found the joint venture mode is preferred by small firms. This is possible because of the fact that Firms, in general, do not prefer the Greenfield investment when contractual and investment risks(even in high market potential economies) are high. And when companies are seeking risk diversification more likely to opt for the joint venture choice (Luo, 2001).

The result also shows that, company's home country factors were statistically significant in influencing the choice of joint venture over green filed investment at less than 5 percent probability level with negative coefficient. From this result it can be stated that those companies whose home country factors are less influential are less likely to choose joint venture as compared with green field investment than those whose home country factors is highly influential. The marginal effect in the model with regard to company's home country factors implies that, other thing held constant, the probability of choosing joint venture is reduced by 13 percent as compared with green field investment. This result was supported the finding of Root, 1987, and Kaffash et al (2012).

Also the model shows that, international experience is positively and significantly affecting the choice of acquisition over green field investment at less than 5 percent significance level and this is consistent with the finding of (Agarwal and Ramaswami, 1992). This shows that, as companies international experience increases by a year the probability of choosing acquisition increased by 0.27 marginal effects. This might be the reason that high experienced in the international market gives companies knowledge about market, companies in host country markets, and host country business environment spatially if companies had past acquisition experience, the probability choosing acquisition as a way to international market increases. International experience was identified as the most important predictor of entry strategy selection. Moreover, it was found to have a positive influence on entry strategy (Agarwal and Ramaswami, 1992).

Based on the multinomial logistic regression analysis results of the propositions, three hypotheses (H2, H5 and H7) are supported. Three variables are significant: company size, firm's home country factors and target country production factors.

Hypotheses Testing

Hypotheses on Company Size

H_2: Company Size positively influences the choice of joint venture and acquisition over green field investment

The result has shown in table 4.18supports the hypotheses. Company size measured in numbers of employee that have positive influence and is statistically significant in choosing joint venture and acquisition in relative to green field investment at 1 and 10 percent probability level.

Hypotheses on Target country production factors

H_5: Target country production factors positively influences the choice of joint venture and acquisition over green field investment

Target country production factor have positive influence on entry mode choice and are statistically significant in choosing joint venture relative to green field investment at 1 percent significant level which supports the hypotheses.

Hypotheses on Firm home country factors

H_7: Firm home country factors positively influences the choice of joint venture and acquisition over green field investment

Firm's home country factors have negative influence but statistically significant in choosing joint venture relative to green field investment at 1 percent significant level.

7. Conclusion

As shown in the analysis respondents were given three entry modes as choice to enter Ethiopian market namely, Greenfield investment, joint venture and acquisition. From these modes most of companies used Greenfield investment as their entry mode which is the base category for multinomial logistic model of this study.

As the result of descriptive statistics shows, companies were influenced by both internal and external factors to choose their entry mode to enter the international market. From the internal factors the combination of product factors, company size, and international experience played a great role in influencing company's entry mode choice. And also they were influenced by all type of external factors namely target country market factors, target country production factors, target country environmental factors and firm's home country factors with different level of influence.

The estimation result of multinomial logit model revealed that, some of the explanatory variables are statistically significant in choosing Joint venture and acquisition relative to the base outcome green field investment. As founded in this study, company size has positive influence and it is statistically significant in choosing joint venture and acquisition in relative to green field investment. Also, firm's home country factors with negative influence and target country production factor with positive influence are statistically significant in

choosing joint venture relative to green field investment at 1 percent significant level. However, other factors failed to statistically affect choice of joint venture and acquisition relative to green field investment. If a coefficient is insignificant it does not mean that its variable is completely irrelevant. It only means that the variable does not affect the choice between that alternative and the base

8. Implications

Implications for foreign companies

Knowing the available entry modes and the factors influencing choice of entry modes is an important thing while entering different foreign markets. So by considering this companies which are interested to enter other country markets are advised to conduct studies before entering that particular market.

This research has provided a better understanding of the influence of internal and external factors on choice of international market entry strategies. It is important for managers to formulate a clear strategy regarding market entry modes, as it is crucial to have clearly stated objectives and a clear view of the current situation when entering a new international market. When selecting the objective for market entry modes it is important to look at both internal and external factors and evaluate every market entry situation individually as both internal and external factors will influence the possibility to successfully perform a market entry.

Implications for government

Government of a country plays a great role in attracting or discouraging companies' entry to that particular country. So in this regard it is advisable to Ethiopian government to conduct further study on factors influencing entry mode choice while they come to Ethiopia sine it helps companies to know the specific factors which influence the way they may use to enter the market in advance.

Implications for further Study

Despite the fact that there is lots of information on company internationalization process, entry modes and factors which company should analyze before entering new market, it is impossible to consider all the factors in one study. So researchers interested in this area can assume this and consider more variables in making study.

The researcher used the generalized forms of independent variables such as target country market factors, target country production factors, target country environmental factors and firm's home country factors. Therefore it will be important to make further studies on these variables separately.

Also this research focused only on manufacturing companies so it is advisable to consider service and other industries in further studies in the future.

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HYPERLINK "http://en.wikipedia.org/wiki/Multinomial_logit" http://en.wikipedia.org/wiki/Multinomial_logit

Appendixes

Appendixes A: The result of multinomial logit

mlogit ModeentryEthio neplyee prdtfactors Targcrymktf Trgcntenvfac frmhomcofact Trgctrprdnfc inteexp

Iteration 0: log likelihood = -81.081799
Iteration 1: log likelihood = -68.004154
Iteration 2: log likelihood = -66.804475
Iteration 3: log likelihood = -66.633396
Iteration 4: log likelihood = -66.053803
Iteration 5: log likelihood = -66.034542
Iteration 6: log likelihood = -66.034465
Iteration 7: log likelihood = -66.034465

Multinomial logistic regression Number of obs = 90
LR chi2(14) = 30.09
Prob > chi2 = 0.000
Log likelihood = -66.034465 Pseudo R2 = 0.1856

ModeentryEthio	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Joint venture						
neplyee	.0244931	.0091342	2.68	0.007	.0065903	.0423959
prdtfactors	.1415847	.1807132	0.78	0.433	-.2126067	.4957761
Targcrymktf	-.2560146	.3589516	-0.71	0.476	-.9595468	.4475176
Trgcntenvfac	-.112085	.2992803	-0.37	0.708	-.6986637	.4744936
frmhomcofact	-.675851	.2390093	-2.83	0.005	-1.144301	-.2074014
Trgctrprdnfc	.3394833	.1910022	1.78	0.076	-.0348741	.7138407
inteexp	-.0016539	.0067192	-0.25	0.806	-.0148234	.0115156
cons	-4.615836	1.614671	-2.86	0.004	-7.780533	-1.451138
Greenfield investment	(base outcome)					
Acquisitions						
neplyee	.0280531	.011407	2.46	0.014	.0056957	.0504105
prdtfactors	.0045874	.242362	0.02	0.985	-.4704334	.4796082
Targcrymktf	.1748763	.4842243	0.36	0.718	-.7741858	1.123938
Trgcntenvfac	.146074	.4297598	0.34	0.734	-.6962397	.9883878
frmhomcofact	-.1188666	.3123325	-0.38	0.704	-.7310269	.4932938
Trgctrprdnfc	.5315277	.3803761	1.40	0.162	-.2139957	1.277051
inteexp	.1012004	.0834777	-1.21	0.225	-.2648137	.0624128
cons	-7.506298	3.149691	-2.38	0.017	-13.67958	-1.333017

Appendix B: Marginal effects after mlogit

. mfx
Marginal effects after mlogit
y = Pr (ModeentryEthio=Joint venture) (predict)
= .26520961

variable	dy/dx	Std. Err.	z	P>|z|	[95% C.I.]		X
neplyee	.0045631	.00178	2.57	0.010	.001078	.008048	109.489
prdtfa~s	.0275568	.03449	0.80	0.424	-.04005	.095164	2.63333
Targcr~f	-.0511996	.06842	-0.75	0.454	-.185302	.082903	.8
Trgcnt~c	-.0229359	.05732	-0.40	0.689	-.135281	.089409	1.02222
frmhom~t	-.1308156	.04491	-2.91	0.004	-.218839	-.042792	1.48889
Trgctr~c	.0621773	.03625	1.72	0.086	-.008862	.133217	5.71111
inteexp	.0004353	.00138	0.32	0.752	-.002263	.003133	19.2222

. mfx,predict(pr outcome(1)) required
. mfx,predict(pr outcome(1))
Marginal effects after mlogit
y = Pr (ModeentryEthio==Greenfield_investment) (predict, pr outcome (1))
= .70656406

variable |	dy/dx	Std. Err.	z	P>|z|	[95% C.I.]		X
neplyee	-.0051492	.00189	-2.72	0.007	-.008861	-.001438	109.489
prdtfa~s	-.0266227	.03551	-0.75	0.453	-.096216	.04297	2.63333
Targcr~f	.0444863	.07023	0.63	0.526	-.093165	.182138	.8
Trgcnt~c	.0180901	.05937	0.30	0.761	-.09827	.13445	1.02222
frmhom~t	.1290167	.04619	2.79	0.005	.038494	.219539	1.48889
Trgctr~c	-.0742156	.0373	-1.99	0.047	-.147327	-.001104	5.71111
inteexp	.0023282	.00164	1.42	0.155	-.000882	.005538	19.2222

. mfx,predict (pr outcome(2))
Marginal effects after mlogit
y = Pr(ModeentryEthio==Acquisitions) (predict, pr outcome(2))
= .02822634

Variable	dy/dx	Std. Err.	z	P>|z|	[95% C.I.]		X
neplyee	.0005861	.00064	0.91	0.361	-.00067	.001842	109.489
prdtfa~s	-.0009341	.00636	-0.15	0.883	-.013397	.011529	2.63333
Targcr~f	.0067133	.01381	0.49	0.627	-.020358	.033784	.8
Trgcnt~c	.0048458	.01192	0.41	0.684	-.018518	.028209	1.02222
frmhom~t	.0017989	.00818	0.22	0.826	-.01423	.017828	1.48889
Trgctr~c	.0120383	.01489	0.81	0.419	-.017153	.04123	5.71111
inteexp	.0027635	.00135	-2.05	0.004	-.005401	-.000126	19.2222