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Market entry modes in a multipolar world: Untangling the moderating effect of the political environment

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ABSTRACT

We review the extant literature on market entry modes to explain the multi-levels of the political environment that can have a moderating effect on transnational corporations' (TNC) market entry processes. Based on a systematic review of the Uppsala model, transaction cost analysis, real options, eclectic paradigm, industrial network, and institutional approaches, we show that the market entry modes literature has largely excluded some aspects of the political environment from market entry mode decisions. Consequently, we continue to struggle with the question of how TNCs can factor the political environment into their foreign market entry processes. We suggest a more detailed analysis of the political environment may enable future research to address this challenge using corporate political activity literature and institutional theory. In particular, a distinction between macro and micro levels of analysis can explain how the moderating effect of the political environment on market entry mode decisions can be untangled.

1. Introduction

Foreign market entry modes are institutional arrangements for organizing and conducting international business transactions in host markets. Examples include exporting, contractual agreements, joint ventures, and wholly owned operations (Andersen, 1997; Root, 1987). The decision as to what market entry mode is more appropriate for a transnational corporation (TNC) in a given international market has traditionally been based on various antecedents and moderators which frequently exclude the analysis of the political environment or limit its study to political ratings or degree of political stability (Delios & Henisz, 2003; Henisz & Zelner, 2010; Holburn & Zelner, 2010; Kobrin, Basek, Blank, & Palombara, 1980; Ring, Lenway, & Govekar, 1990). Paradoxically, although the political environment has been identified as an important moderator in internationalization activities (Bucheli & Aguilera, 2010), the evolution of market entry modes research has not adequately addressed this multi-level construct, which sets forth the question of how TNCs can factor the political environment into their market entry processes.

To tackle this gap, we argue for the need to give more relevance to the political environment in market entry modes research and decision-making. This is particularly pertinent in a multipolar global economy. Multi-polarity implies the distribution of power and influence within the international system. It signifies a changing world order from the post-Cold War unipolar world dominated by U.S.A. economic, political, financial, cultural, and military might. Our intent in using this term is to convey the increased diffusion of power, particularly economic, financial, and political, to countries other than the U.S.A. This approach recognizes the growing influence and hegemony of China, India, Brazil, Russia, and other countries, both within their geographical regions and beyond. It also recognizes that in the search for growth and market opportunities, TNCs from developed economies commonly decide to enter emerging economies where political environments are frequently more unpredictable and less stable and where the limited analysis of political ratings and stability is not enough to assess the impact of the political environment on market entry processes (Delios & Henisz, 2003; Holburn & Zelner, 2010). For TNCs, this ongoing global geopolitical realignment necessitates an even more multifarious approach to market entry mode decisions that includes a structured analysis of the moderating effect of the political environment.

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To redirect market entry modes research towards an alignment with a multipolar world, the key contributions of this paper are to first, classify the various approaches in the field of foreign market entry modes research to emphasize the dominant theoretical constructs that these approaches factor into market entry processes. Second, to suggest that an institutional framing of the political environment requires even more attention in market entry modes literature due to its indirect and direct effects (Peng, Wang, & Jiang, 2008; Slangen & van Tulder, 2009), especially from formal and informal institutional conditions that shape different TNCs' behaviors (Gao, Murray, Kotabe, & Lu, 2010). Third, to explain how and why TNCs can more effectively factor the political environment into market entry mode decisions by distinguishing between macro (supranational, international, and national) and micro (industry and firm) levels of analysis. Finally, we aim to provide future research avenues for scholars in the market entry field using corporate political activity ideas and institutional theory in their models and methodologies to better explain the positive and negative outcomes from internationalization.

Acknowledging our contributions, we find Fayerweather (1969) was one of the first international business scholars to address the accommodation of interests and the resolution of conflict between firms and political actors as one of the key decision factors influencing internationalization strategies. Building on this work, Boddewyn (1988) and Hillman and Hitt (1999) extended Fayerweather's argument by claiming that the political environment, which captures governments (and government policies), is a critical source for TNCs because of governments' ability to exert control over critical resources and policies that shape a TNC's competitive advantage. Even the perceived ability of a nation's government to credibly commit to a given set of policies has been found to influence the market entry modes selected by TNCs (Henisz & Swaminathan, 2008). Therefore, scholars such as Peng, Wang, and Jiang (2008) highlight the importance of an institution-based view in international business and raise the importance of politics, law, and society in home and host countries. Moreover, they suggest that TNCs' internationalization is not only driven by industry competition and firm capabilities, but is also a reflection of the formal (political and legal systems) and informal (social structures and relationships) institutional factors that they encounter in their home and host markets (Peng et al., 2008). However, the multi-level political aspects (supranational, international, national, industry, and firm level political aspects) of these environments have not permeated extensively into market entry modes research, especially cross fertilizing corporate political activity (CPA) and political distance ideas between home and host countries into international business literature (Lawton, McGuire, & Rajwani, 2013).

Thus, we commence by reviewing the diverse market entry modes literature streams and develop a comprehensive classification that describes and integrates existing research on the antecedents and moderators of market entry mode decisions. It is important to clarify that *antecedents* refer to the endogenous or organizational (*internal*) conditions and constraints and *moderators* refer to the exogenous or environmental (*external*) conditions and challenges, which both influence TNCs' foreign market entry modes decision-making. Building on the reviews of Andersen (1997), Brouthers and Hennart (2007), and Canabal and White (2008), we critically analyze the six dominant research perspectives on foreign market entry modes: (1) the Uppsala model; (2) transaction cost; (3) real options; (4) the eclectic paradigm; (5) industrial networks; and (6) the institutional approach.

We find that market entry modes research has proposed a variety of antecedents, and more recent work specifies complex relationships and potential moderating effects (Brouthers, Brouthers, & Werner, 2008; Cui & Lui, 2005; Luo, 2001; Meyer, Estrin, Bhaumik, & Peng, 2009; Rasheed, 2005). Nonetheless, the multi-levels of the political environment have not been accurately assessed in market entry modes literature. Hill, Hwang, and Kim (1990) call for a unifying theory to explain the different factors and relationships influencing market entry mode selection decisions. However, no single theory has reached this consensual position. Consequently, with contributions coming from an increasing variety of research domains, the debate on market entry modes has become disconnected and complex. Therefore, we contribute to the market entry modes literature by integrating and synthesizing the conceptual and empirical insights from prior research and highlighting the importance of the inclusion of the multi-levels of analysis of the political environment using ideas from corporate political activity literature and institutional theory. More importantly, as an influential moderator, we suggest future research avenues that capture the macro and micro levels of the political environment to better predict the market entry choice and performance of TNCs in host markets.

2. Methodology

The method chosen for this systematic review followed guidelines proposed by Tranfield, Denyer, and Smart (2003). This systematic review method allows us to reduce bias, enhance objectivity, and identify gaps in the literature. Thus, following a systematic process to review market entry modes literature, we aimed to provide critical insights through theoretical synthesis to untangle how TNCs factor the political environment into their market entry processes. We determined the selection of articles relevant to our review using ProQuest and EBSCO databases. In our analysis, we concentrated on review articles published during the last two decades and on theoretical and empirical articles published during the last three decades in management and international business journals. We placed special emphasis on the references cited in the 'market entry modes' review articles that were found and on those articles published in journals such as Journal of International Business Studies (*JIBS*), Strategic Management Journal (*SMJ*), International Business Review (*IBR*), Journal of World Business (*JWB*), Management International Review (*MIR*), Journal of Management Studies (*JMS*), and Journal of Management (*JOM*), among others.

2.1. Search strategy

In the first step, our search strategy focused on identifying seminal market entry modes review articles published during the last two decades. We found Andersen (1997), Brouthers and Hennart (2007), and Canabal and White (2008) to be important papers to build on. In a second step, drawing on these review articles, we extended our search by analyzing their cited references. In a third step, we expanded our search by identifying all articles published during the last three decades using the words *international*, market entry modes*, and *global* strategy* in their title and/or abstract, since these terms tend to be used by articles that discuss market entry modes. The (*) asterisks at the end of some of the search words worked as a query optimization strategy that enabled the capturing of those words with different possible endings. For example, in the case of international*, the search results could include internationalization, internationalizing, internationals, and other terms with different endings. This search yielded a set of 9829 articles.

2.2. Selection of articles

In this final step, we had to select the key articles to frame our review within the total sample. Therefore, we initially reviewed the title and abstract of each article from the total of 9829 articles to determine if an article could potentially inform our research. Each article selected by a review of its title and abstract then followed a content analysis and quality appraisal exercise by all three authors. The content analysis focused on verifying if the article informed first, how market entry mode selection decisions were made; and/or second, what antecedents or moderators were considered in market entry modes decision-making. Thereafter, we also investigated if each article was repeatedly cited in the mainstream market entry modes domain. In total, we found 69 articles constituted the core of our systematic review. Of these articles, 20 percent are from the *Journal of International Business Studies*, 9 percent from the *Strategic Management Journal*, 7 percent from *Management International Review*, 7 percent from the *Journal of Management Studies*, and 6 percent from the *International Marketing Review*. Moreover, it is important to note that we moved beyond this core literature in two ways. First, these core articles cited other contributions that we could not ignore when discussing their suggestions. These earlier contributions were required to fully understand and do justice to the discussions being addressed. Secondly, we departed from the core literature when we incorporated some references that addressed the political environment to broaden our understanding of how to untangle its analysis in relation to market entry modes decision-making using corporate political activity ideas and institutional theory. In short, while 69 articles constituted the core of this review, various references outside the core were also included in our analysis to enhance our discussion. The reference list indicates the core articles in our review by using an asterisk.

3. The evolution of market entry modes research

3.1. Literature streams related to market entry modes

Across the literature, entry modes have been related to varying degrees of resource commitment, risks, control, and performance outcomes (Anderson & Gatignon, 1986; Pan & Tse, 2000; Puck, Rogers, & Mohr, 2013). They have been classified through a hierarchical model as equity-based and non-equity-based (Kumar & Subramaniam, 1997). The equity-based entry modes have been sub-divided into wholly owned operations and equity joint ventures. Non-equity-based entry modes have been divided into exports and contractual agreements (Pan & Tse, 2000). Within non-equity based market entry modes, exporting refers to the physical transfer of goods from a firm to a foreign market, directly or indirectly (with or without intermediaries), and with the receipt of a corresponding payment. Contractual agreements refer to contracts between a firm and an agent to produce and/or distribute goods inside foreign markets. Within equity-based market entry modes, joint ventures refer to the sharing of know-how or resources by two or more firms that share joint ownership and control. Wholly owned entry modes include greenfield investment, which refers to start up investment for new facilities in foreign markets. Lastly, acquisitions are another wholly owned entry mode that refers to the significant purchase of stock in an already existing firm to enable control (Kumar & Subramaniam, 1997).

Different streams of research have emerged to explain how firms and managers approach the selection of one or more of these market entry modes. We identified six such schools of thought: the Uppsala model, transaction cost analysis, real options, the eclectic paradigm, industrial networks, and the institutional approach. Collectively, these represent the mainstream research approaches to market entry mode decisions. These approaches have described experiential knowledge, endogenous uncertainty, organizational capabilities or firm-specific advantages (FSAs), know-how, and size as antecedents of market entry mode decisions. They have also identified cost, exogenous uncertainty, market characteristics or country-specific advantages (CSAs), risk, culture, competition, institutional effectiveness, and networks as moderators influencing market entry mode decisions (see Fig. 1). Our review indicates that the political environment is a multi-level construct that has not been extensively discussed as a moderator of market entry mode decisions by these approaches within the market entry modes literature. However, we argue that it is time for the moderating effect of the multi-level political environment to be explicitly included in the evolution of market entry modes research to match the multipolar reality of our changing global economy and its growing effect on the internationalization processes of TNCs.

In developing our arguments, as detailed in Fig. 1, we direct attention to the antecedents and moderators associated with market entry mode decisions through the following systematic review of the mainstream entry modes approaches. We explain the key factors addressed by each perspective while we highlight their main criticisms to explain that the multi-level political environment has not been accurately accounted for as an influencing moderator in market entry modes research.

3.2. Major themes and research approaches

3.2.1. The Uppsala model approach

This is the earliest school of thought to address the internationalization process of TNCs. It explains that TNCs adopt an incremental approach towards their efforts to sell in foreign

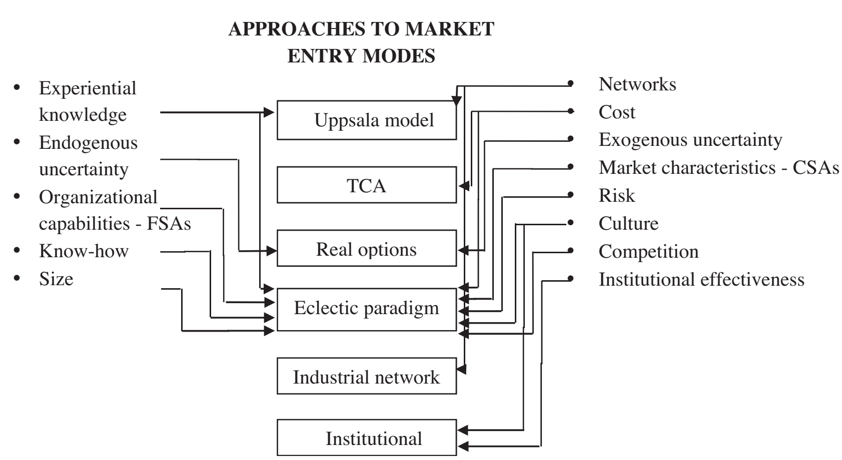

Fig. 1. Classification for understanding and developing market entry modes research.

markets (Johanson & Vahlne, 1977, 1990; Johanson & Wiedersheim, 1975). Specifically, they expand their operations gradually, beginning with entry into foreign markets with similar cultures and institutional conditions before moving on to more dissimilar host countries. For each foreign market entry, the internationalization process starts with exporting, followed by setting up local subsidiaries or joint ventures, and lastly, the establishment of wholly owned operations (Luostarinen, 1980). This incremental process is intended to allow TNCs to learn from the experience they acquire in their initial operations and use this experiential knowledge to reduce the uncertainty they face in subsequent internationalization efforts, through which they are expected to gradually increase market commitments abroad (Johanson & Vahlne, 2009). Overall, this approach is thought to protect TNCs from the downside risk of failure by increasing their overseas resource commitment over a certain time period (Rhee & Cheng, 2002).

This incremental approach is also referred to as the Uppsala model (Whitelock, 2002) or the chain of establishment (Andersen, 1997). The main characteristic of this approach is that it describes the market entry mode selection decision as a time dependent process. This means that the entry mode selection decision of a TNC is based most importantly on previous experiential knowledge about the specific market or previous sequential mode of entry selection decisions that have developed over time.

However, this approach has been criticized due to its deterministic sequence. According to Johanson and Vahlne (1977), TNCs ought to start their internationalization process by exporting, then by establishing local subsidiaries or joint ventures, and finally by installing wholly owned production facilities. Although some TNCs do follow this incremental sequence (Kwon & Hu, 1995), empirical research has also found that not all firms necessarily follow the suggested phases in the internationalization path (Reid, 1983; Root, 1987). Buckley, Mirza, and Sparkes (1987) found that TNCs may use "mixed" approaches to individual foreign markets and Turnbull (1987) claimed that even large TNCs with substantial international experience and commitment use a variety of market entry modes abroad that do not necessarily follow incremental stages. It is not always the case that the internationalization process begins by exporting, or reaches its final stage through the installation of wholly owned production facilities in foreign markets. For example, some high technology TNCs make their initial international market entry through licensing (Root, 1987).

These criticisms prompted Johanson and Vahlne (1990) and Sharma and Johanson (1987) to make an exception to their original approach: they argued that it did not apply to the service industry. They also suggested the model was not applicable in three instances: first, to TNCs that have substantial resources and may be expected to make more sizeable internationalization steps; second, when market conditions are stable and relevant market knowledge can be obtained in ways other than through experience; and third, when TNCs have considerable experience attained from markets with similar conditions, that make it possible to generalize this experience to other markets.

Other criticisms of this approach refer to its reliance on exclusively one variable – experiential knowledge – that may be insufficient for explaining the complex entry mode selection decision. Moreover, the model does not take into account the possibility of working the internationalization process backwards or decreasing international commitments.

However, more recently and perhaps to address these criticisms, the Uppsala model has been extended further by Johanson and Vahlne (2009) to explore the importance of trust-building and knowledge creation in local networks. In their revised model, it is not the liability of foreignness that matters, but rather the liability of 'outsidership', i.e. being an outsider to relevant business networks in new local contexts. The key challenge in international expansion is not that a new local context may be foreign in terms of psychic distance with the home country, but rather that it may be difficult to become an insider in local networks (see Rugman, Verbeke, & Nguyen, 2011 for further discussion). This extension of the Uppsala model relates to the industrial network approach that also addresses the moderating effect of networks in entry choice. Through this recent extension of their work, Johanson and Vahlne (2009) have enhanced the indisputable contribution of the Uppsala model by presenting not only experiential knowledge as an influential antecedent but also networks as an important moderator to market entry mode decisions.

3.2.2. Transaction cost analysis approach

Building on the seminal work of Williamson (1975), another approach used to examine entry mode decisions is transaction cost analysis (TCA), adopted by many international business scholars due to its rational approach (Anderson & Coughlan, 1987; Anderson & Gatignon, 1986; Gatignon & Anderson, 1988; Klein, Frazier, & Roth, 1990). Both manufacturing and service TNCs have used a TCA approach to market entry mode decisions based on an analysis that focuses exclusively on the costs of the transaction (Brouthers & Brouthers, 2003; Erramilli & Rao, 1993). A rationalistic approach to entry mode decisions, based on a cost minimization rationale, is the main contribution of TCA. When using TCA, all of the internationalization costs associated with various market entry modes are calculated and then contrasted with their expected outcomes in order to make a rational decision about which market entry mode should be selected for a specific market. This approach has been specially used to evaluate whether or not to establish a wholly owned production facility in an international market (Erramilli & Rao, 1993).

TCA views internationalization as an organizational transaction that takes into consideration the costs of foreign activities, frequency of economic exchange, asset specificity, and the uncertainty surrounding the exchange of resources between buyer and seller (Andersen, 1997; Zhao, Luo, & Suh, 2004). Based on these factors, the firm is expected to make a rational decision about the most cost efficient market entry mode. However, most of the studies on market entry mode decisions have actually modified the TCA approach by including other factors or expected outcomes such as extending market power (Teece, 1981), contractual or cooperation hazards (Oxley, 1997; Oxley & Sampson, 2004), and increased control or integration (Hill, Hwang, & Kim, 1990; Kobrin, 1988). These modifications indicate that the initial approach of TCA has been abandoned, since other factors are being included along with cost transaction minimization. The inclusion of new factors has consequently resulted in differing conclusions from those initially obtained through TCA. In his work, Madhok (1997) captures how the inclusion of new factors in TCA significantly altered the results initially obtained by transaction cost analysis.

Paradoxically, some concerns about the TCA approach relate to its focus been solely on the seller's point of view of the transaction and on exclusively deciding a market entry mode upon a cost efficiency rationale. This last concern favored the inclusion of new factors in TCA. On the other hand, another limitation of TCA refers to the difficulty of previously calculating all of a transaction's costs at the analysis stage before these costs have actually been incurred. Nonetheless, despite the exclusive focus of TCA on cost, this approach has been widely practiced by TNCs and contributes to market entry literature by emphasizing the relevance of cost as a moderator of entry mode decisions.

3.2.3. Real options approach

The real options concept is based on financial options (Myers, 1977). A real option is the right – but not the obligation – to undertake certain business actions, such as deferring, abandoning, or expanding an investment. The application of real options in international strategy has been motivated by its central idea of assessing endogenous and exogenous uncertainties not only as sources of threats but also as sources of opportunities for TNCs (Li, 2007). The TCA approach associates uncertainty with transaction costs and potential losses that should be minimized (Anderson & Gatignon, 1986) while real options contribute to entry mode decisions by analyzing the risks as well as the opportunities (Chi & McGuire, 1996; Tong & Reur, 2007). According to the real options approach, in order to benefit from uncertainty, firms should create real options to maintain flexibility in adjusting their decisions in response to new opportunities or challenges (Kogut & Kulatilaka, 1994). Therefore, market entry modes are understood as non-static decisions. These decisions should evaluate not only the net present value (NPV) of its future profits but also the option value they bring to the TNC, which is the value accrued from adjusting future entry modes in response to new information.

Real options have most widely been used to analyze joint ventures among the different market entry modes (Li, 2007). Researchers have analyzed joint ventures as real options, as they can provide a partner with the ability to acquire the other partner's equity if uncertainty from the market and the partner turn out to be favorable. In other words, by exercising a firm's option to grow. More importantly, joint ventures enable the avoidance of downside losses when a TNC sells its equity to its partner or dissolves the joint venture when uncertainty turns out to be unfavorable, by exercising its option to abandon (Buckley & Casson, 1998; Chi & McGuire, 1996; Cuypers & Martin, 2007). Consequently, from a real options perspective, joint ventures provide a better combination of characteristics than other entry modes when both the option to grow and the option to abandon are important. However, Buckley and Casson (1998) ignore the option to learn from joint ventures. TNCs can certainly gain knowledge about a host market through their partners and this will influence their decisions in that particular market or other markets. Therefore, a learning option may increase the option value of a joint venture (Li, 2007). Nonetheless, an important disadvantage in a joint venture is that partners themselves can become a source of volatility, reducing the option value of such joint venture.

Research regarding the greenfield and export market entry modes using real options found that greenfield investments obtain more information about host markets than export investments (Buckley & Casson, 1998). This occurs because the ownership of assets involves ownership of information, which shows that if volatility caused the market to grow unexpectedly, the greenfield investor would recognize opportunities and respond quickly. In addition, the greenfield investor faces lower costs of expansion than does an exporter who decides to switch to foreign production. Therefore, in the face of market growth, the value of the option to grow in a greenfield investment is higher than that in export investments. Nevertheless, during market decline, a greenfield investment faces more constraints than an export investment because it has devoted more irreversible investments. Hence, in the face of market decline a greenfield investment provides a lower value of the option to abandon than an export investment.

A limitation of the real options approach is that its use is rather recent and therefore the empirical testing of market entry modes based on this approach is rare. Yet, we suggest that its account of endogenous and exogenous uncertainties as antecedents and moderators of entry mode decisions is necessary in the volatile conditions TNCs are facing in their businesses and markets. This is particularly true when TNCs are internationalizing into higher risk or emergent economies such as Russia, India, and China (Ahsan & Musteen, 2011).

3.2.4. Eclectic paradigm approach

According to Dunning's (1988) eclectic or OLI paradigm, the following factors influence market entry modes: ownership advantages (O), locational advantages (L), and internalization advantages (I). Ownership advantages are firm specific assets and skills. Assets are characterized by a firm's size and international experience (experiential knowledge) and skills relate to the firm's ability to develop differentiated products or services (organizational capabilities) (Dunning, 1993). Locational advantages define how attractive a market's characteristics are according to its potential market share, competition, and risk (Root, 1987). These advantages include the consideration of cultural differences and production costs. Lastly, internalization advantages analyze the costs associated with selecting a non-equity based or an equity-based market entry mode (Dunning, 1993).

It is worth highlighting that Dunning's (1988) ownership and locational advantages, which are at the center of the eclectic paradigm, relate to the FSA/CSA framework advanced by Rugman in 1981. Similarly to ownership advantages, Rugman (1981) claims that firm-specific advantages (FSAs) are organizational capabilities that enable a TNC's competitive advantage and are built on skills in product development, distribution or marketing. He also states that country factors unique to the business in each country lead to country-specific advantages (CSAs) or what Dunning (1988) refers to as locational advantages. These can be based on natural resources, labor force or associated cultural factors. According to the FSA/CSA framework, TNCs are advised to first expand in countries with similar CSAs, as they learn and develop their FSAs to expand into more distant markets. At this stage, the unfamiliarity of these environments will be offset against the TNC's ability to recombine its FSAs with host markets' CSAs (Rugman et al., 2011). Hennart (2009) further explains that recombinations of FSAs and host market CSAs demonstrate that in many cases the boundary between CSAs and FSAs is blurred. Hennart (2009) claims that if some of the CSAs motivating internationalization are not freely accessible but their access is controlled by home country actors then the challenge for TNCs is to develop (through FSAs) relationships with powerful local actors that open up access to the required CSAs.

Similar to Dunning (1988), Rugman (1981) and Hennart (2009), Madhok's (1997) primary concern was the attainment of competitiveness through the development and exploitation of a firm's capabilities or FSAs. For Madhok (1997), the outcome expected from a TNC's internationalization process is not just increased profit but also the enhancement or development of capabilities. This concern is based on the argument that to compete successfully in a global marketplace, TNCs require a complex set of capabilities. Therefore, a robust and sustainable advantage requires a TNC to operate in different markets in order to develop differing though associated capabilities. As an example, the presence of U.S.A. TNCs in technology sectors in Germany, where German technology is significantly advanced (such as pharmaceuticals), can be explained by how critical this presence is to building a competitive knowledge base (Cantwell, 1989). Consequently, the number and characteristics of the foreign markets in which a TNC operates may be critical to providing it with a competitive knowledge base or FSAs.

Madhok's (1997) central argument is that market entry mode selection decisions should be guided not only by cost concerns (as the TCA approach) but by a broader theme of managing and developing the value of organizational capabilities (Kogut & Zander, 1992) to improve and deploy a TNC's knowledge base. Therefore, the different entry modes are considered alternatives to modes of knowledge acquisition. For example, investments in wholly owned subsidiaries result in similar routines being perpetuated. Differently, joint ventures can be attractive when the development of all necessary know-how in-house is perceived as too slow and interaction with another firm provides the possibility of more effectively interchanging knowledge (Kogut, 1988).

Furthermore, intending to extend Dunning's (1993) eclectic paradigm, Hill, Hwang, and Kim (1990), Kim and Hwang (1992), and Woodcock, Beamish, and Makino (1994), argue that additional strategic variables such as organizational control factors or resource requirements should be included. The possibility of creating new factors to analyze the market entry mode selection decision and the amplitude of related work within this perspective, has characterized the eclectic paradigm as a multi-theoretical approach that is based on international trade theory, the resource-based view, and transaction cost theory.

However, TCA studies are more theoretically well grounded than studies following the eclectic paradigm, which are more complex but theoretically weaker at explaining empirical results. Another weakness of the eclectic paradigm is that it presents locational advantage as exclusively influencing the market entry mode selection decision, although it is also considered to influence the market selection decision (Douglas, Samuel, & Keegan, 1982). Therefore, most studies have assumed a TNC can draw upon all entry mode possibilities in any market. This assumption that the market selection decision is independent from the market mode entry selection decision has been questioned by, for example, a TNC finding market potential and low production costs in a determined market but facing government policies that restrict the available entry mode choices for that specific market. Regardless of these limitations or weaknesses, we recognize that the power of the eclectic paradigm lies in the variety of antecedents (experiential knowledge, organizational capabilities/FSAs, know-how, and size) and moderators (cost, market characteristics/CSAs, risk, culture, and competition) it has been able to assess. Therefore, most TNCs that decide not to follow cost as the only determinant factor to entry mode choice relate to this approach.

3.2.5. Industrial network approach

The transaction cost analysis and eclectic paradigm approaches all rely on the assumption that the TNC is autonomous in the development of its internationalization agenda. Johanson and Mattsson (1986) believe this underlying assumption does not consider multiple characteristics of the TNC and the market environment that are relevant to industrial systems and influence the market entry mode selection decision. Following this line of thought, Johanson and Vahlne (2009) suggested the inclusion of networks as an important moderator of entry mode choice. Turnbull and Ellwood (1986) described the industrial system as a network of firms engaged in production, distribution, and use of goods and services, through which lasting business relationships are established, developed, maintained, influenced, and affected by all of those involved. Each firm in the network has relationships with customers, distributors, suppliers, and even competitive relations. According to this definition of the industrial system, four groups of variables within the interaction process occurring inside networks were identified as influencing the analysis of market entry mode selection decisions: the elements and processes of the interaction; the characteristics of the parties involved (buyers/suppliers); the atmosphere surrounding the interaction; and the environment within which the interaction takes place.

The interpretation of this industrial system by the internationalizing TNC will influence both its market selection and market entry mode selection decisions (Cunningham, 1986). Consequently, the industrial network approach claims that an internationalizing TNC must consider and evaluate not only the potential customers available in the foreign market it aims for but also this market's overall environmental network, its relations, and potential effect on the TNC's strategy. Criticisms of this approach alert us to the existence of identifiable networks in foreign markets and emphasize that we should not assume that these will have a positive effect on a TNC's market entry mode decision. Although networks can accelerate market entry they have also been found to reduce the entrepreneurialism necessary to build a sustainable niche. This suggests that under certain market conditions, industrial network relations may have limitations (Beverland, 2009). Consequently, the idea of assessing the impact of industrial networks in entry mode decisions might shed light on interesting positive or perhaps surprising negative effects.

3.2.6. Institutional approach

The institutional approach is an extension of the eclectic paradigm that focuses on the institutional dimension in market entry mode selection decisions (Brouthers et al., 2008). According to this approach, different country environments present formal and informal constraints on organizational behavior (Henisz & Swaminathan, 2008; Scott, 1995). Formal institutional constraints include laws and rules that provide a stable business environment and affect the ability of a TNC to enact and enforce contracts. Informal institutional constraints include cultural values and norms, which influence the actions of employees, managers, and consumers in a specific country (North, 1990). Since no two countries are identical, resources that create a competitive advantage in one country, particularly in a TNC's home country, may not create an advantage (or may even be a disadvantage) in another country due to differences in institutional environments (Oliver, 1997; Peng, 2001).

Following institutional economics theory, Wan and Hoskisson (2003) describe the institutional environment as composed of institutions that provide intangible support to TNCs by facilitating transactions within the business environment. These institutions can be broadly classified as political, legal, and societal. Institutional theory argues that the effectiveness of these country institutions will facilitate better organizational performance (Demirbag, Tatoglu, & Glaister, 2008).

Accordingly, Meyer and Nguyen (2005) and Henisz (2000) claim that following institutional economics logic, the institutional environment is a crucial determinant in market entry mode selection decisions, since institutions have been found not only to regulate or facilitate the business environment but to also affect foreign investors' perceived risk (Brouthers, 2002). Meyer and Nguyen (2005) and Henisz (2000) even argue that a host country's institutional environment is determinant to such an extent, that it influences a TNC's entry mode by both selection mode and equity composition.

The institutional approach has increasingly attracted the interest of scholars and managers as TNCs have found that the institutional effectiveness of their foreign markets not only differs, but significantly affects performance outcomes (Brouthers et al., 2008). However, paradoxically, the specific focus of this approach highlights the relevance of institutional effectiveness and culture in market entry mode selection decisions, whilst it neglects to specifically address the influence of the multi-levels of the political environment from supranational, international, national, industry to firm levels. Thus, we find it fruitful for future work to explore the non-market institutions and institutional actors related to the multi-levels of the political environment and their implications for market entry choices.

A brief comparison of the various research approaches to market entry modes research is presented in Table 1, synthesizing the previous review.

4. Untangling the moderating effect of the multi-level political environment on market entry modes research

The aim of this paper has been to classify the various approaches in the field of market entry modes research to identify

Table 1
A Comparison between research approaches of the market entry modes literature.

Approach	Theoretical background	Major theme(s)	Factor(s)	Decision criteria	Limitation(s)
Uppsala model	Resource based view theory	Incremental approach to resource commitment and risk	Experiential knowledge and networks	Trade-offs between growth and risk	Internationalization process is considered a linear sequence experiential knowledge is insufficient
Transaction cost analysis (TCA) approach	Transaction cost theory	Follows a cost efficiency rationale	Cost	Transaction cost minimization	Focuses on seller's point of view difficulty to calculate all transaction costs accurately cost of transaction is insufficient
Real options	Financial options theory	Argues entry modes imply different value	Endogenous and exogenous uncertainty	Value of option	The use of real options theory in international strategy is rather recent
Eclectic paradigm	International trade theory, the resource based view theory, and the transaction cost theory	Is a multi-theoretical approach	Cost, size, experiential knowledge, organizational capabilities/FSAs, know-how, risk, culture, competition, market characteristics/CSAs	Trade-offs between return, risk, control, and resources	The opportunity of including other factors of analysis to market entry mode selection decisions raises issues in these factors' explanations and interrelations
Industrial network approach	Network theory	Argues industrial networks influence market entry modes	Networks	Trade-offs between local and foreign networks	Industrial networks accelerate market entry but have also been found to dampen entrepreneurialism
Institutional	Institutional economics theory	Argues institutional effectiveness facilitates performance outcomes	Institutional effectiveness and culture	Trade-offs between institutions and resources	No two countries offer the same institutional environment

the dominant theoretical constructs that these approaches factor into market entry processes. The previous section identified the six dominant schools of thought in market entry modes research and showed that the multi-levels of the political environment are not extensively addressed by many of these approaches.

With that in mind, capturing the political environment in market entry mode decisions requires cross-fertilizing into the corporate political activity literature (broadly non-market strategy) using institutional theory (Lawton et al., 2013). Drawing on the conceptualization of the three pillars of institutions presented by Scott (2001), we untangle how TNCs can factor the political environment into market entry processes by defining two main levels to guide its analysis: the macro (supranational, international, and national) and the micro (industry and firm). Building on the important work of Canabal and White (2008), we find that there has been significant progress in market entry modes research since Johanson and Vahlne's (1977) seminal work. However, we argue that the inclusion of multi-levels of analysis to the moderating effect of the political environment will allow future entry modes research to further substantiate and extend existing theoretical insights on market entry. TNCs that can assess the effect of the multi-levels of the political environment using policy and risk effects on their operations (Kobrin et al., 1980), will most likely generate favorable long-term outcomes (Bonardi, Holburn, & Vanden Bergh, 2006; Henisz & Delios, 2002; Henisz & Zelner, 2003, 2005; Holburn & Vanden Bergh, 2002). Therefore, exploring the macro and micro political levels of analysis can allow scholars in this field and TNCs to make more informed and even profitable market entry mode decisions.

To embed the political environment into market entry research, we suggest scholars should investigate the factors that constitute its macro and micro levels of analysis, as shown in Fig. 2. Drawing on Doh, Lawton, and Rajwani (2012), Dunning (1988), North (1990), Rugman (1981), Scott (2001), and Canabal and White (2008), the

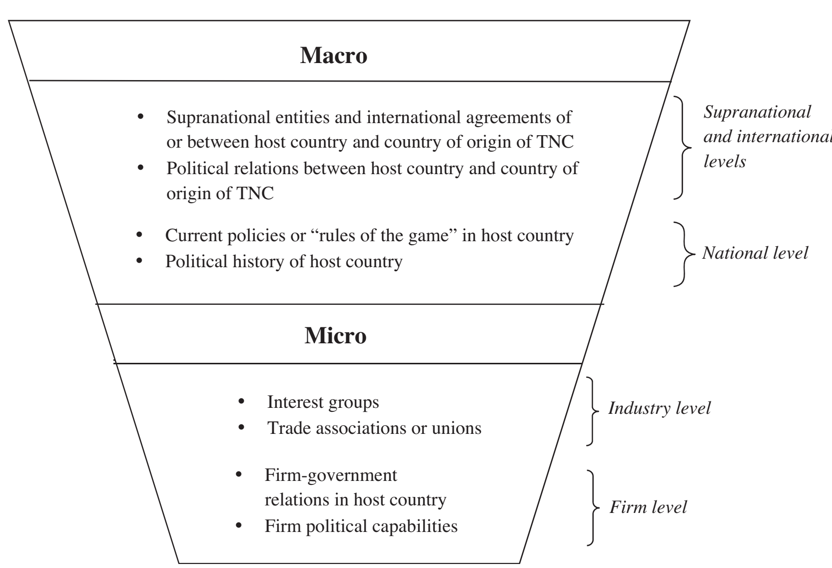

Fig. 2. Multi-levels of analysis of the political environment.

macro level of analysis encompasses the supranational, international, and national levels of the political environment. At the supranational level, TNCs have closely observed the emergence of supranational entities such as the World Trade Organization (WTO). At the international level, TNCs have also observed the creation of international agreements that promote regional integration groupings such as the North American Free Trade Agreement (NAFTA), the Association of South East Asian Nations (ASEAN), and the European Union (EU) (Brewer & Young, 2009; Rugman & Verbeke, 2004). If TNCs' host country and/or country of origin are involved in these supranational macro level entities or if either one or both countries have international agreements among them and/or with other countries, the policies within these trade blocks can influence TNCs in a positive or negative way. For instance, Lawton and McGuire (2005) highlighted how the strategic choices of European firms within the chemicals and textiles industries were restricted by WTO rulings at a supranational level. Similarly, international agreements have portrayed opportunities and threats for businesses in or from participating countries (Brewer & Young, 2009; Rugman & Verbeke, 2004).

At the international level, TNCs are also affected by the political relations between a host country and their country of origin. These political relations can be tense and result in becoming obstacles to the entry process.

For example, some firms have been obliged to design strategies to adapt their operations and behaviors to host political environments in order to overcome tense political relations between a host country and their country of origin (White, Hemphill, Joplin, & Marsh, 2014). For instance, some TNCs have found it necessary to avoid governments and take a stealth approach due to their country of origin, instead they try to just overcome commercial obstacles and government interference from the host market using supranational based tactics like the WTO. We believe future research can focus on further unveiling the effects of supranational entities and international agreements on market entry mode decisions by using quantitative methods that can allow the analysis of big data. Future studies can also dedicate efforts to broaden our understanding of the impact of political relations between a host country and a TNCs country of origin by exploring comparative cases of strong and weak political relations in market entry mode selection decisions. In other words, exploring if strong political relations encourage greenfield modes of entry or if weak political relations tend to promote export modes.

At the national level, a deep understanding of the current state of policies and legal systems, often referred to as 'the rules of the game' (Baron, 1995; North, 1990) is necessary to be captured in market entry decisions. Scholars need to further understand the challenges TNC's face to comply with governmental policies that regulate foreign direct investments and even their specific industry. These policies set the legal framework for their business operations through contractual agreements and they even delimit future growth opportunities and conditions (Boddewyn & Brewer, 1994; Henisz & Zelner, 2010). More importantly, these political conditions can be liberal or conservative in terms of political ideology and TNCs must be able to identify the ideological stance behind the "rules of the game" to build a broader understanding of political actors and conditions.

However, the current state of national governmental policies is no more than a static picture in time of the political environment of any country. Therefore, TNCs must complement their understanding of national current policies and legal systems with knowledge about the political history or trajectory of a country. National political historical accounts and their evolution overtime will indicate what political stance or stances have ruled the political history of a country and how stable the political environment has been in general. Knowledge of this political history in terms of political parties will allow scholars to identify the most relevant and influential political actors who have influenced the political environment and how these relate with each other and with the business sector in general. Through the study of current policies and political history, future studies can investigate not only how current policies in a host country affect market entry, but also how a host country's political history has shaped the previous market entry modes used by TNCs. Further research can also identify political patterns in a host country to allow TNCs to accurately anticipate the political trajectory of a country to make more informed decisions on entry choice.

After this macro level, a micro level of analysis allows TNCs to have deeper insights into the political environment. The micro level of analysis explores the industry and firm levels. At the industry level, TNCs can determine what interest groups can affect or have influence over their business operations. Their identification and understanding can allow TNCs to anticipate and deal with these interest groups' demands or expectations effectively before, during, and after their entry into a host market (Elg, Ghauri, & Tarnovskaya, 2008). Similarly, an exploration of trade associations or unions can allow TNCs to identify them as sources of support and information that can promote and inform their operations. Through trade associations, TNCs can identify potential networks to join, competitors, suppliers or even firms with which they can form joint ventures or strategic alliances (Reveley & Ville, 2010; Tucker, 2008). We find this to be a rich avenue for future research, as many TNCs use trade associations to build trust and legitimacy to enhance their reputation to influence governments before entering a new market. Furthermore, interest groups, trade associations, and unions, are no more than a few of the networks TNCs have to engage with to operate in host markets.

At the firm level, TNCs can evaluate firm-government relations. In some cases, TNCs find host governments who welcome foreign direct investments and offer stable conditions for businesses, while in others, host country governments may persecute different businesses for various reasons such as the imposition of taxes or particular political stances (Henisz & Williamson, 1999; Henisz & Zelner, 2010; Minor, 1984). Also, host governments may have particular interests in certain strategic industries or foreign firms according to their political agenda. This may facilitate or impede the entry of a TNC into a host market or determine its mode of entry. We believe this to be another fruitful path to explore in terms of political networks intensity, specifically in terms of frequency, size and tie order in relationships between government actors in host countries and TNCs.

Lastly, to be able to interact with uncertain or stable political environments, TNCs can evaluate the state of their own political capabilities and resource combinations for the specific types of host markets they intend to enter (Lawton & Rajwani, 2011; Lawton, Rajwani, & Doh, 2013). The more developed their political capabilities, the greater their ability to deal with uncertain political environments. The more experience they have in an international socio-political market, the lower their resource commitment to build supportive relationships (Hadjikhani, Lee, & Ghauri, 2008). We believe that future research needs to look at the different combinations of political capabilities and resources required for entry to host markets with diverse political conditions, from campaign contributions to building hospitals and schools, as done by some retailers, to adopting neutral political stances to avoid political persecution that disrupts business operations. Moreover, looking at the dark side of market entry with politics will equally be a fruitful area in terms of corruption and bribery.

5. Conclusion

This study had three primary aims. First, to classify the various approaches in the field of foreign market entry modes research to emphasize the dominant theoretical constructs that these approaches have taken into account in market entry processes. Second, to provide evidence on the multi-levels of analysis of the political environment, as these have not been extensively discussed in market entry modes studies. Third, to untangle and explain how TNCs and scholars in future research can approach the political environment in market entry mode decisions through distinguishing between its macro and micro levels of analysis.

Our review suggests that the political environment as a multi-level construct is relevant to market entry mode studies. This construct has not been accurately addressed in the dominant six schools of thought in market entry modes literature. Therefore, our findings show that the market entry modes literature continues to struggle with the question of how TNCs should factor host country political environments into their market entry mode decisions. We find that corporate political activity ideas and institutional theory provide fruitful insights to disentangle the multi-levels of analysis of the political environment that moderate TNCs' market entry processes.

We suggest that the increased multi-polarity of the global economy requires a more sophisticated approach by TNCs in factoring host country political environments into their foreign market entry mode decision-making. This can be done through assessing both the macro and micro levels of analysis of political environments. The macro level encompasses the supranational, international, and national levels of the political environment. At the macro level, TNCs can evaluate the supranational entities or international agreements a host country or country of origin may be involved in (supranational and international level), the political relations between a host country and a TNC's country of origin (international level), the current state of policy making and legislation - often referred to as ''the rules of the game'' - and the political history or trajectory of a host country (national level). The micro level of analysis explores the industry and firm levels. At the industry level, TNCs should study what interest groups or political actors can affect or have influence over their business operations and what trade associations or unions can support and inform their operations. At the firm level, TNCs should evaluate firm-government relations in the host country and their ability to leverage and transfer existing political capabilities internationally to compete in their host country's non-market environment.

Our findings contribute to the literature on market entry modes by showing that the multi-levels of analysis of the political environment have not been accurately addressed in market entry modes research, despite the increased importance of a multipolar world. Drawing on corporate political activity literature and institutional theory, we suggest how TNCs can approach the study of the political environment in their market entry mode decisions, specifically by assessing both its macro and micro levels of analysis. This approach to the study of the political environment is likely to have interesting implications for practice as TNCs may find these levels useful for the organization of their own analyses of the political environment in market entry modes decision-making. We call upon future research to address how TNCs are addressing their multi-level political environment using corporate political activity ideas and institutional theory to more accurately understand market entry. This work will extend our theoretical insights on the moderating effect of the political environment in market entry mode decisions.

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