

# **A Thought on Foreign Market Entry Processes: From the Cases of Japan's Service Businesses**

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*This study examines decision-making processes of Japan's service-related companies entering emerging markets. Findings include: 1) Entering emerging markets is generally a pre-decided corporate policy, and the decisions are often influenced by specific personal events; and 2) Pre-decision research is not likely to have a substantial impact on decisions. Based on these, two hypotheses emerge: a) Small-Start Hypothesis: Market entry is decided in practice by the time FS is conducted; and b) Loss-Cut Averse Hypothesis: Firms find it difficult not to enter a new market after investing in research. This study suggests a new perspective on foreign market entry.*

## **INTRODUCTION**

As Japan's population is decreasing and aging, the domestic markets are shrinking and/or saturated, except for the silver market. In contrast, demands from emerging markets, such as India and Vietnam, continue to grow at a rapid rate. Therefore, companies of all over the world are seeking business opportunities in emerging markets, including Japanese business firms.

If we take a close look at the consumers in emerging economies, urban middle class consumers are growing in number, and they are shifting their lifestyle toward modern westernized way. This implies that potential business areas are shifting from manufacturing to services, such as convenience store, food service, hotel, education, credit card and finance, housekeeping, entertainment, beauty and health, and so on. These areas reflect middle class consumers' needs for convenience, comfort, or enjoyment.

Compared to manufacturing, business-to-consumer services involve more "service encounters" that are interactions with customers. This implies that it is essential to understand consumers' characteristics before market entry. At the same time, expanding business overseas entails large risks. It is also considered that entering emerging markets involves more uncertainty than entering developed countries. Therefore, whether or not to enter, and which country and specific market to enter should be important management decisions.

Keeping these backgrounds in mind this study aims to examine the characteristics of the decision-making processes of entering emerging markets, and to reconsider internationalization models in the literature. We have attempted to achieve these goals by analyzing the cases of Japan's service-related

business firms, and by focusing on the roles of “Feasibility Study” (“FS” hereafter), in addition to the reasons for and methods of market selection.

## LITERATURE REVIEW

### Traditional Perspectives on Foreign Market Entry

Research regarding firms’ foreign market entry has traditionally focused on decisions about the choices of target markets and the form of entry. Two major schools of thought form the overall theoretical background. The first school is based on transaction cost economics initiated by Coase and Williamson, which holds that if transaction costs are high, it is rational to internalize the procedures (to own the business) and reduce transaction costs (Coase, 1937; Riordan & Williamson, 1985; Williamson, 1996). Transaction costs include costs associated with information search, negotiation, contract, monitoring, etc.

The second school is Dunning’s OLI Paradigm or Eclectic Theory (Dunning, 1979, 1988, 2000). This holds that the three elements—ownership-specific advantage, location-specific advantage, and internalization-incentive advantage—and the interaction among them influence the decisions made regarding foreign market entry and expanding overseas business. Altinay (2007) regards this OLI Paradigm as the most frequently referenced framework regarding overseas business expansions.

Recently, attempts have been made to integrate two schools, as observed in the works of Hill, Hwang, & Kim (1990), as well as the study by Brouthers & Brouthers (2003), Blomstermo, Deo Sharma, & Sallis (2006), Erramilli & Rao (1993), and O’Farrell & Wood (1994) which compare and contrast manufacturing and service businesses. However, as the majority of studies, including these, involve the internalization of transaction costs as an analytical perspective, the topics to be investigated include the decisions regarding the market to be targeted and/or the form of entry. Thus, the decision whether it is advantageous to internalize transaction costs by acquiring a local organization or by direct investment significantly influences the form of entry.

Three primary options have been compared and examined depending on the degree of internalization: 1) licensing, 2) joint ventures with part ownership, and 3) the total acquisition of a local firm. In this scheme, entry by franchising, often seen in such service businesses as catering and hotels, is viewed as a form of licensing because it is a contractual relationship without ownership.

The discussion thus far has involved the rationality of decision-making regarding the target market and form of entry, or about its rational justification. However, an examination of the decision-making process has remained a secondary concern. As aforementioned, this study’s first objective is to comprehend the decision-making process based on the cases of Japanese firms. With respect to the forms of decision-making, contrastive two types exist: 1) “simultaneous” decision-making, which compares several options based on information; and 2) “sequential” decision-making, which considers one option at a time, deciding whether the choice is appropriate or not (Damon & Schramm, 1972). The former is more rational than the latter in a situation with perfect information, where necessary information can be obtained immediately without incurring costs. However, information is far from perfect when considering entry to emerging markets. In reality, obtaining information through FS incurs search costs that cannot be ignored, which are a component of transaction cost.

Therefore, it is difficult to compare options and their conditions simultaneously. It is fair to assume that the decision-making would be sequential based on imperfect information among a limited number of choices. This also suggests that rationality, which is pursued in decision-making, is naturally restricted. Assuming that no other way exists than sequential decision-making, or making a decision about one option’s suitability or acceptability, what will the decision be based on? In entering emerging markets, items concerning regulations, supply restrictions for means of production, and demand predictions can be suggested. Preceding studies suggest the consideration of both company and market factors. For example, insights exist regarding company factors, such as “big firms or firms with much experience with overseas markets tend to orient towards a form of ownership with a stronger commitment (direct investment).” Further, “in the case of service businesses, the relationship between the experience of the overseas market and commitment is not linear, but U-shaped” (Erramilli, 1991). It has been suggested regarding market

factors that “the closer the market is to the home country in terms of culture, the more likely a firm seeks ownership with a stronger commitment” (Hoffman & Preble, 2004; Rodriguez, 2002).

However, preceding studies do not necessarily clarify the significant items in making target market decisions. In real business, after confirming knock-out factors that make it impossible to do businesses, it is proposed to individually examine such factors as marketability (industry trends, market trends, and competitive environment), operations (procurement, production, and sales); regulations (restrictions on FDI and general legislation), and profitability (profit, return on investments, and maximum loss), considering the firm’s own conditions (Yoshino, 2015).

### **International Opportunities and Decision Processes**

Literature on entrepreneurship addresses how to view international entrepreneurial opportunities (IEO). In this regard, Oviatt & McDougall (2005) defined IEO as “The discovery, enactment, evaluation, and exploitation of opportunities—across national borders—to create future goods and services.”

Along the process of decision-making on internationalization, entrepreneurship literature has two major focuses: 1) How to view opportunities, and 2) How to make decisions on the specific opportunities. Regarding the first focus, “How individuals evaluate opportunities remain fragmented” (William & Wood, 2015) and “The idea that entrepreneurial opportunities exist ‘out there’ is increasingly under attack by scholars who argue that opportunities do not preexist objectively but are actively created through subjective processes” (Ramoglou & Tsang, 2016). Chandra (2017) classifies views on opportunities into three categories as in Table 1(a). According to this classification, “Empiricist view” is an objective view which states that “Opportunities exist out there.” On the other hand, “Constructivist view” is a subjective view which regards opportunities as being created by entrepreneurial efforts. “Critical-realist view” includes both elements; they think that opportunities are usually created, but in some cases, it can be found objectively in a pure form.

With respect to the second focus: how to make decisions on the specific opportunities, a decision will be made as to whether to take it, or which one to take. According to Chandra (2017), there are three different types of decision; “Effectuation,” “Causation,” and “Rule-based reasoning” approaches as in Table 1(b). Effectuation and causation approaches are contrasted. Causation rest on a logic of prediction, effectuation on the logic of control (Sarasvathy, 2001). Effectuation-type decision makers try to control uncertainty, rather than predicting and planning. They employ the affordable-loss principle and satisficing as evaluation criteria. This implies that effectuators make decisions sequentially. Also, they usually rely on personal experiences. Further, their question starts with “Who am I?” In other words, “What do I have as resources and capabilities?” (Dew, et al. 2009). The opposite type decision is the causation approach. They maximize expected returns through prediction, planning, and analysis. Their question starts with “What is my goal?” Rule-based reasoning is a combination of the two. This is a structured approach based on rules, but does not attempt to maximize expected returns.

Based upon the above-mentioned classifications about views on opportunities and decision-making types, four different models about corporate internationalization processes are derived (Table 1(c)). Each model shows its own characteristics regarding views on opportunities and decision-making types. For instance, OLI paradigm is positioned as “Economics model,” which follows “Empiricist view” for opportunities and “Causation approach” for decision-making. Each model indicates its own characteristics.

**TABLE 1(a)**  
**VIEWS ON OPPORTUNITIES**

	<b>Empiricist View</b>	<b>Critical Realist View</b>	<b>Constructivist View</b>
Basic Idea	<ul style="list-style-type: none"> <li>* Objective view of the world</li> <li>* Assume that opportunities 'exist out there' in international markets</li> </ul>	<ul style="list-style-type: none"> <li>* Opportunities are unrealized abstract possibilities that need to be concretized.</li> <li>* Reconcile two opposite views by introducing a hierarchical idea</li> </ul>	<ul style="list-style-type: none"> <li>* Subjective view of the world</li> <li>* Assume that opportunities 'are the result of actions'</li> </ul>
Typical Characteristics	<ul style="list-style-type: none"> <li>* An opportunity can be evaluated based on its attributes, such as production costs, labor supply, and stability of the government</li> </ul>	<ul style="list-style-type: none"> <li>* Raw opportunities exist</li> <li>* Unactualized opportunities also exist</li> <li>* Opportunities are often found and evaluated, in other cases, enhanced and created</li> </ul>	<ul style="list-style-type: none"> <li>* An opportunity is created or co-created through relationships and interactions among stakeholders in international markets</li> </ul>

(Source) Authors' preparation referring to Chandra (2017) and Ramoglou & Tsang (2016)

**TABLE 1(b)**  
**DECISION-MAKING TYPES**

	<b>Effectuation Approach</b>	<b>Rule-based Reasoning Approach</b>	<b>Causation Approach</b>
Basic Idea	<ul style="list-style-type: none"> <li>* Control uncertainty rather than predicting and planning</li> </ul>	<ul style="list-style-type: none"> <li>* Structured approach to opportunity evaluation</li> <li>* Set a rule (rules) as evaluation criteria</li> </ul>	<ul style="list-style-type: none"> <li>* Maximize expected returns through careful prediction, planning, and opportunity analysis</li> </ul>
Typical Characteristics	<ul style="list-style-type: none"> <li>* Employs the affordable-loss principle and satisficing as evaluation criteria</li> <li>* Relies on personal experience</li> <li>* Starts with "Who am I?"</li> </ul>	<ul style="list-style-type: none"> <li>* Relies on rules so as to reduce uncertainty and assess opportunities through specific criteria</li> </ul>	<ul style="list-style-type: none"> <li>* Employs careful market survey and analysis on expected returns and risks</li> <li>* Starts with "What is my goal?"</li> </ul>

(Source) Authors' preparation referring to Chandra (2017), Sarasvathy et al. (2014), and Williams & Wood (2015)

**TABLE 1(c)**  
**TYPICAL INTERNATIONALIZATION MODELS**

	<b>Economics Model</b>	<b>Process Model</b>	<b>Network Model</b>	<b>Entrepreneurship Model</b>
Types of Decision-making	Causation Approach	Rule-based Reasoning Approach	Effectuation Approach	Causation Approach (sought)
Views on Opportunities	Empiricist View	Critical Realist View	Critical Realist View	Constructivist View
Typical Focus	* Optimizes for location choice and entry mode based on what a firm owns (people, brands, etc.) * Compare opportunities in terms of OLI (Ownership-Location-Internalization)	* Focuses on learning and risk mitigation * Gradual approach of entry from culturally similar to culturally different, and risk-free to riskier mode (export to FDI).	* To internationalize, formal and informal relationships are utilized * Internationalization process is often affected by unintended effects	* Views internationalization as a process and outcome of entrepreneurial action under uncertainty
Representative Literatures	* Dunning (1988, 2000)	* Johanson & Vahlne (1977, 1990)	* Johanson & Mattson (1986, 1988)	* Coviello (2015) * Jones & Coviello (2005) * McDougall & Oviatt (2000)

(Source) Authors' preparation referring to Chandra (2017), Coviello (2015), Dunning (2000), Johanson & Mattson (1988), and Johanson & Vahlne (1990)

Notes: Chandra (2017) does not specify the decision type for "Entrepreneurship Model." However, it presumes comparison and consideration based upon market analysis. This enabled the authors to correspond this model to "Causation Approach," and express as "Causation Approach (sought)."

## METHOD AND DATA

### Research Design and Hypothesis

The purpose of this study is to address “What are the characteristics of decision processes by Japanese service businesses?” To clarify the characteristics, we focus on two aspects of the decision process. First, we extract motivations and types of and reasons for entry decisions. We treat the decision to internationalize as a process and not a single point in time, following preceding studies (Johanson & Vahlne, 1977; Sarasvathy, et al., 2014). The process of decision-making involves, 1) Finding an international opportunity, and 2) Judging whether the firm should exploit the opportunity or which opportunity best matches the firm. (Johanson & Vahlne 1990; Johanson & Mattson, 1988; Jones & Coviello, 2005; McDougall & Oviatt, 2000). Keeping these in mind, this study examines 1) Motivation for the entry into emerging markets, 2) Decision-making style, and 3) Reason(s) for choosing the target market. Based on these, we consider the characteristics of the decision process.

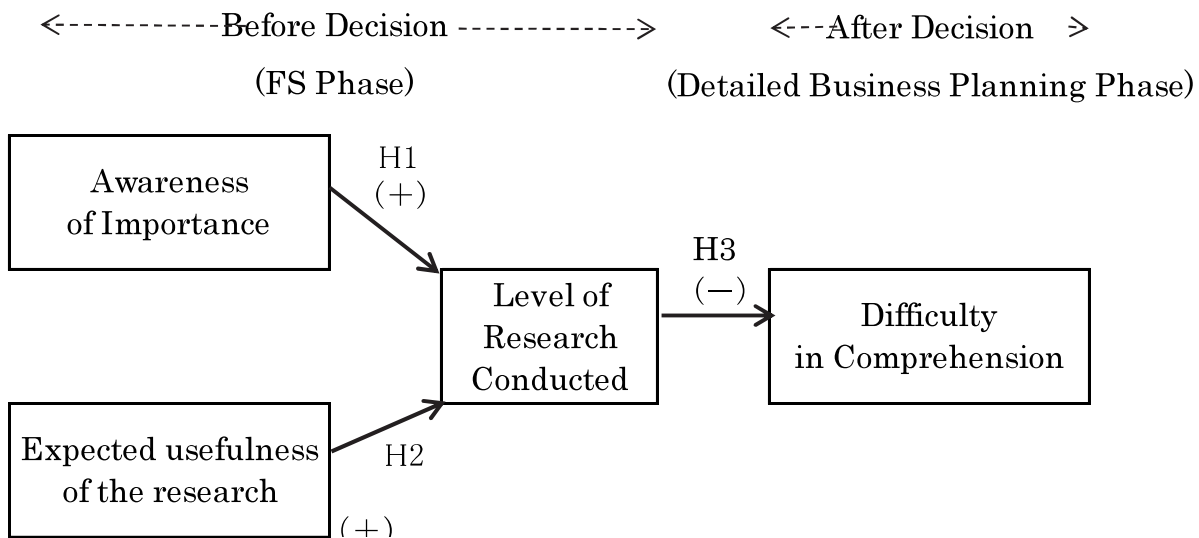
The second aspect is information and knowledge to alleviate uncertainty and risks. We approach this aspect by analyzing the roles of FS. We set the model shown in Figure 1. This is to test the traditional idea that “FS is conducted to improve the understandings of important issues and to make use of the acquired knowledge to make management decisions about foreign market entry. Specific hypotheses are stated below.

*Hypothesis 1 (H1): Research level during FS is positively affected by the awareness of importance of the item concerned.*

*Hypothesis 2 (H2): Research level increases if the research is expected to be effective about the item concerned.*

*Hypothesis 3 (H3): FS reduces the difficulty in comprehension, in other words, improve comprehension in the item concerned.*

**FIGURE 1  
HYPOTHESIS MODEL**



**Data Collection**

We conducted interviews with managers of 11 Japanese service business firms. The presumption of sample selection is that the company is doing business in India and/or Vietnam, and that the respondent can explain the process of decision-making and FS. As a result, the samples for Vietnamese business are convenience store, confectionary manufacturing and sales, sports gym, hotel, and extra-curricular school. For India, they are extracurricular school, hotel and car rental, apparel sales, transportation/distribution, and crop production/sales (Table 2).

Table 3 shows research items asked in the interviews. In this table, (1)-(3) correspond to the characteristics of decision-making, which consists of (1) Motivation for the entry into emerging markets, (2) Decision-making, selection from multiple candidates or judging appropriateness of one candidate, and (3) Reasons for choosing the target markets (Vietnam/India). Item (4)-(6) correspond to the roles of FS, which are (4) “Awareness of importance” of each item, (5) “Difficulties in comprehension,” and (6) “Level of research conducted.” These 3 aspects are asked both before the decision (during the FS phase) and after the decision (during the detailed business planning phase). We have classified 23 items into three categories: 1) Rules and business environment (hereafter “Rules”), 2) Workforce and organization (hereafter “Workforce”), and 3) Marketing. These 23 items were first identified with the discussions with three consultants in charge of overseas business. Then the items were verified during the interview; we asked the respondents whether there were any potentially important items and confirmed that the 23 items were exhaustive.

**TABLE 2  
INTERVIEW RESPONDENTS**

Period of Implementation:	February 22 to May 2, 2016		
Method:	On-site interviews (60-90 minutes)		
Subject Firms Operating in Vietnam:	(Five Firms: A-E)		
	<u>Business Type</u>	<u>Business Form</u>	<u>Respondent</u>
Firm A	Convenience Store	Franchising Local Subsidiary (100%)	Executive Officer, Director, Overseas Division
Firm B	Confectionary Manufacturing and Sales	Franchising Branch Office	Director, Global Business Development
Firm C	Sports Gym	Local Subsidiary (JV→100%)	Executive Officer, Director, Overseas Sales Division
Firm D	Hotel	Direct Commissioning Local Subsidiary (JV)	Leader, Overseas Development Division
Firm E	Extra-Curricular School	Local Subsidiary (100%)	Director, in charge of R&D Business
Subject Firms Operating in India:	(Six Firms: F-K)		
	<u>Business Type</u>	<u>Business Form</u>	<u>Respondent</u>
Firm F	Extra-Curricular School	Franchising Local Subsidiary (100%)	Leader, Publicity Department
Firm G	Hotel, Car Rental	Local Subsidiary (JV)	Representative Director and Local Firm Representative
Firm H	Extra-Curricular School	Local Subsidiary (100%)	Head of Overseas Business Division and Local Firm Representative
Firm I	Apparel Sales	Local Subsidiary (JV)	Head, Sales Division, International Headquarters
Firm J	Transport/Distribution	Local Subsidiary (100%)	Manager, Global Business Strategy Department
Firm K	Crop Production/Sales	Local Subsidiary (100%)	Publicity and Advertising Department/Division

Notes: "Business Form" stands for the firm's service base and the type of ownership. "100%" represents independent ownership and "JV" denotes "Joint Venture."

**TABLE 3**  
**RESEARCH ITEMS**

- (1) Motivation for the entry into emerging markets
- (2) Decision-making: selection from multiple candidates or judging appropriateness of one candidate
- (3) Reasons for choosing the target markets (Vietnam/India)
- (4) "Awareness of importance" of 23 items listed below (both before and after the decision)
- (5) "Difficulties in comprehension" of 23 items listed below (both before and after the decision)
- (6) "Level of research conducted" of 23 items listed below (both before and after the decision)

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23 items asked

□) Aspect of "Rules (and business environment)"

1. Regulations on foreign direct investments (FDI), special economic zones (SEZ), etc.
2. Appropriate size of initial investment and securing necessary funding
3. Cumbersome administrative procedures regarding permissions and other aspects
4. Local commercial customs
5. State of infrastructure, such as electricity and roads
6. Difficulty in securing land
7. Securing distribution networks and means (procurement or shipment distribution)

□) Aspect of "Workforce and organization"

8. Possibility of finding local collaborative partners
9. Local firm's organizational form and the possibility of organization
10. Difficulty in securing workforce
11. Flexibility in workforce (regulations on hiring and firing, and part-time employment)
12. Education and training of local staffs
13. Selection of staffs sent from Japan
14. Japanese staffs' adaptation to the destination

□) Aspect of "Marketing"

15. Target customers' preference for the firm's product/service
16. Target customers' responses to the prices of the firm's product/service
17. Optimal choice of location/service base
18. Possibility of online service business development (Internet service)
19. Brand building, publicity and advertisement
20. Competition with local firms
21. Competition with other Japanese firms
22. Competition with foreign firms (western/Korean)
23. Differentiation and strengths comparing to competitors

\* Others (if applicable)



Notes: Followings are the response scales applied to 23 items and judged by respondents.

Awareness of importance (7-point scale)	1. Not at all important, 4. Neutral, 7. Very important
Difficulties in comprehension (7-point scale)	1. Very easy, 2. Easy, 3. Can be understood by simple research 4. Can be understood by ordinary research, 5. Can be partly understood by research, 6. Difficult to understand by research, 7. Impossible to understand
Level of research conducted (7-point scale)	1. No research, 4. Ordinary research, 7. Detailed research

Regarding “Expected usefulness of the research” shown in Figure 1 is a dummy variable. We allocate “1” when “Difficulty in comprehension” is “3,” “4,” or “5,” meaning that the concerning item can be understood by research, and allocate “0” when otherwise. Also, “Difficulty in comprehension” is calculated as “Difficulty in comprehension after the decision” subtracted by “Difficulty in comprehension before the decision.” Both variables are in 7-point scale, and if the comprehension level improves, the value will turn out to be negative. Therefore, the higher the level of research, the lower “Difficulty in comprehension” will be theoretically.

## RESULTS

### Characteristics of Decision-making Processes

First, with regard to the “Motivation for the entry into emerging markets,” it is likely to be a pre-decided policy. In other words, it tends to be a part of corporate philosophy, as shown in Table 4(a). For instance, Firm I’s manager replied that their vision is to become “Firm I of the world.” Another example would be Firm C. The respondent told us that the president believed in the need to introduce and spread Japanese services to Asian countries.

Second, the nature of decision-making is examined whether selected from multiple candidates or judged appropriateness of solely one candidate. As Table 4(b) indicates, the majority do not compare multiple candidates. Instead, they are more likely to determine whether they should pursue a specific candidate.

Third, regarding the reasons for choosing the target markets (namely Vietnam or India), Table 4(c) shows that four reasons dominate: 1) incidental factors, 2) macroeconomic environment, 3) cultural and/or social factors, and 4) amount of severe competition. Incidental factors include “Hitting it off with a potential local partner,” “Request from potential customers who experienced the service in the US” and so on. Macroeconomic environment is typically “Market potential judged by the population and income of the region.” Cultural/social factors are stated like “India has pro-Japanese nature,” “Vietnam is a Buddhist country, and we can feel close to them,” and so on. Regarding “Amount of severe competition,” such comments as “No severe competition exists” or “Blue-ocean is available for us” are cited.

**TABLE 4**  
**CHARACTERISTICS OF DECISION-MAKING PROCESSES**

<b>(a) Motivation for overseas expansion/entry into emerging markets</b>		
	<b>Number of Firms</b>	
Limited potential of the domestic market	3	A, B, C (Vietnam)
Part of the firm's management philosophy	6	C, E (Vietnam), F, H, I, K (India)
Not Specified, pre-decided policy of the firm	3	D (Vietnam), G, J (India)

Note: Multiple comments allowed, resulting in adding up to more than 11.

<b>(b) Judgment based on simultaneous comparison among candidates</b>		
	<b>Number of Firms</b>	
Simultaneous comparison among candidates	1	C (Vietnam)
Did not do so, considered just one market at a time	10	A, B, D, E (Vietnam), F, G, H, I, J, K (India)

<b>(c) Reasons for choosing the target markets (Vietnam/India)</b>		
	<b>Number of Firms</b>	
Incidental factors	7	B, D, E (Vietnam), F, G, H, I (India)
Macro-environmental factors, potential growth of the market	7	A, C (Vietnam), G, H, I, J, K (India)
Non-existence of severe competition	5	A, C, E (Vietnam), G, H (India)
Favorable cultural and/or social factors	3	C, D (Vietnam), K (India)

Note: Multiple comments allowed, resulting in adding up to more than 11.

### **Roles of Feasibility Study (FS)**

In order to analyze the roles of FS, let us first check overall correlations among three aspects of potentially important items- 1) importance, 2) difficulty, and 3) research level- before and after decisions are made for each item. Table 5 shows the correlation coefficients, where 23 items are pooled and shown for Vietnam and India separately. From this table, we observe the followings.

1. The same aspects between pre- and post-decision are highly correlated with each other. For instance, importance of the item does not change after the decision has been made. Also, well-researched items tend to be researched repeatedly even after the decision.
2. Positive correlations are observed between "Importance of the item" and "Level of research conducted" and between "Level of research (during FS)" and "Difficulty in comprehension (after decision)."

It is understandable that the awareness of importance is consistent throughout the process, regardless of pre- or post-decision (during FS or after FS). Also, it is natural that important items are well researched. However, other observations could imply that research during FS does not reduce the difficulty in comprehension, and therefore, tend to repeat research on the same item after the decision (during the detailed business planning phase). In other words, it could indicate that FS does not change the situation. These observations apply for both markets.

**TABLE 5**  
**CORRELATION AMONG ASPECTS**

<b>&lt; Vietnam &gt;</b>		<b>Pre-decision stage</b>			<b>Post-decision stage</b>	
		Awareness of importance	Difficulties in comprehension	Research conducted	Awareness of importance	Difficulties in comprehension
<b>Pre-decision stage</b>	Difficulties in comprehension	0.167				
	Research conducted	0.421**	0.455**			
<b>Post-decision stage</b>	Awareness of importance	0.752**	0.245*	0.323**		
	Difficulties in comprehension	0.187	0.909**	0.359**	0.282**	
	Research conducted	0.399**	0.366**	0.802**	0.438**	0.403**

<b>&lt; India &gt;</b>		<b>Pre-decision stage</b>			<b>Post-decision stage</b>	
		Awareness of importance	Difficulties in comprehension	Research conducted	Awareness of importance	Difficulties in comprehension
<b>Pre-decision stage</b>	Difficulties in comprehension	0.195*				
	Research conducted	0.412**	0.392**			
<b>Post-decision stage</b>	Awareness of importance	0.974**	0.174	0.397**		
	Difficulties in comprehension	0.143	0.972**	0.353**	0.158	
	Research conducted	0.431**	0.359**	0.861**	0.438**	0.385**

Notes: 1. \*\* denotes statistically significant at 1% significance level (both sided), \* same at 5% significance level.  
2. The number of sample is 115 for Vietnam (23 items by 5 firms), and 138 for India (23 items by 6 firms).

Above observations are the overviews, derived from the data with all 23 items pooled. Yet, among these items, there are some that should be comprehended by a certain research, and others that should be difficult even by elaborate researches of FS. The former includes rules, regulations, and supporting policies by the government, while the latter includes marketing factors, such as consumers' preference, purchase intention under different conditions, loyalty formation, among others.

Figure 2 is the estimation result presented separately by three categories, and corresponding to the hypotheses introduced in Figure 1. The results can be summarized as follows. If we look at the results by category; "Rules," "Workforce" and "Marketing," the determinants of FS research level vary, depending on each category and country. However, the effectiveness of FS, judged by the improvement of

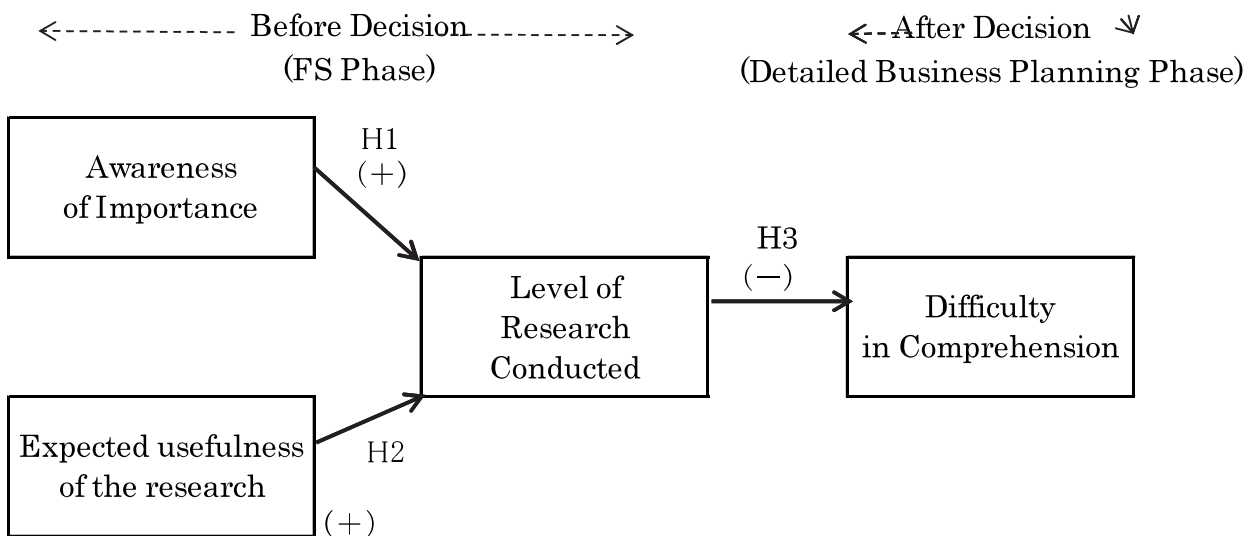
comprehension, is observable in solely marketing-related research for Vietnam. Further, no contributions is observed in case of India as destination.

**FIGURE 2**  
**ESTIMATION RESULTS: ESTIMATES OF STANDARDIZED PARAMETERS**

		India	Vietnam
Category 1 (Rules, etc.)	H1	0.177	0.610 **
	H2	0.347 *	0.276
	H3	-0.240	0.000
Category 2 (Workforce, etc.)	H1	0.255	0.051
	H2	0.592 **	-0.249
	H3	-0.226	0.000
Category 3 (Marketing, etc.)	H1	0.379 *	0.446 **
	H2	0.050	-0.320 *
	H3	0.000	-0.389 *

Notes: “\*” denotes statistically significant at the 5 % significance level, “\*\*” same at the 1 % level.  
 Figures are estimates of parameters of the model with all variables normalized, representing the impacts in terms of standard deviations.  
 Shaded cells indicate that the corresponding hypothesis has been supported.  
 Category 1: Rules, regulations, business environment, etc.  
 Category 2: Workforce, organization, local business partner, etc.  
 Category 3: Marketing, branding, competitiveness, etc.

<Hypothesis Model Revisited>



## DISCUSSION

### **New Hypothesis on Decision-making Processes**

Estimation results of the former chapter question the traditional idea that “FS is conducted to improve comprehension on key items in order to make a management decision.” This is because, in most cases, FS does not improve comprehension. Moreover, the tendency to repeat the research of the same item as conducted in FS even after the decision implies that FS is not working as a watershed event.

This result urges us to reconsider the traditional roles of FS, and they are indicative of new possibilities of decision-making processes. Two possible hypotheses are presented below.

1. The market entry is decided in practice by the time FS is conducted since the market potential is obvious in spite of uncertainty. In other words, firms have adopted a so-called “small start” approach. While trying to understand the market, they cautiously enter it by a small step so that they are able to prepare for withdrawal.
2. Although FS is done in order to make a decision, firms find it difficult not to enter a new market after research has been conducted. This is interpreted as loss-cut averse, or difficulty in abandoning pursued investment as sunk-cost.

In order to test above hypotheses, we need to examine the cases where business firms have given up a new market entry, after they conducted a certain period of FS. Further, if one of above hypotheses applies, it should be important to clarify whether it is a characteristic specific to Japan’s business firms and/or service-related firms. For this purpose, we will need broader samples, including manufacturers and foreign companies. Also, to test any of these hypotheses, more detailed models, with potentially influential variables, are necessary.

### **Internationalization Models Reconsidered**

If we consider the decision type of Japan’s service-related firms according to Table 1(c), the decision type should be “Effectuation” approach. Not only the decision is far from maximizing expected returns as in “Causation” approach, but adopts rather broad satisficing criteria. Several respondents explained that their decisions are deemed acceptable, even if a certain deficit balance continues, so long as the regional experiences and/or resources contribute to the whole company. In this sense, the decision type should be called “Compromise” approach.

Regarding the views on opportunities, not “Empiricist” but “Constructivist view” applies. Japan’s business firms are more likely to regard overseas business opportunities as created by efforts, rather than objectively found. Moreover, they usually consider that it takes years to raise up opportunities and have them take root in the community. In this sense, “Brewer” rather than “Constructivist” should be more appropriate terminology. According to these considerations, Table 6 positions Japan’s services business firms.

Finally, an extended hypothesis on decision type is possible, i.e. “Self-convincing” approach. This occurs when the general direction is already decided (by the top management), and huge uncertainty exists (where one cannot expect even bounded rationality). Under such circumstances, when one finds a choice, he/she would seek rationality for selecting that choice. This scenario coincides with several situations we heard during the interviews. If this story holds, “Brewer” view about opportunities makes more sense, since the choice itself is less important, comparing with the subsequent efforts to make the choice correct.

There is room for further consideration about decision-making, even if they are limited to situations of foreign market entry.

**TABLE 6**  
**JAPAN'S SERVICE BUSINESS FIRMS IN INTERNATIONALIZATION MODELS**

	<b>Economics Model</b>	<b>Process Model</b>	<b>Network Model</b>	<b>Entrepreneurship Model</b>	<b>Japan's Service Businesses Model</b>
Types of Decision-making	Causation Approach	Rule-based Reasoning Approach	Effectuation Approach	Causation Approach (sought)	Effectuation (Compromise) Approach
Views on Opportunities	Empiricist View	Critical Realist View	Critical Realist View	Constructivist View	Constructivist (Brewer) View

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