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STUDY ON THE MECHANISM AND DETERMINANTS OF FOREIGN ENTRY MODES OF SELECT INDIAN MNCS

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Abstract: *The firms who are interested to serve markets of different countries face a tough decision in selecting the foreign entry mode. There are different factors that are identified in this study, which are helpful in selecting the specific entry mode with the support of past literature. This article helps to denote the impact of various factors on the choices for entry mode of the Indian MNCs.Although a firm always would go for the entry mode that provides the very less risk and more return, yet these factors affecting the entry mode would be helpful to determine mechanism of foreign entry modes.*

Key Words: *firm's, entry mode, MNC's, risk, mechanism*

INTRODUCTION

The firm which is seeking entry to an external market should have strong strategic planning and decision by which entry mode can be chosen for that market. The six entry mode for moving into foreign location are exporting, licensing, franchising, turnkey, joint venture and wholly owned subsidiaries . Upto 1991, Indian economy was weak but with the induction of liberalization, the large number of trade barriers were broken. This situation gave the golden opportunity to various multinationals and the other global investors. Taking into consideration the Industrial Policy of the year 1991, the growth of the Indian economy was increased due to the decline of the trade barriers,for example the company named Birla group has set the joint ventures into various other countries to expand its business and similarly ITC setup its channels of distribution into the different global markets to enhance the exports.

Earlier studies have emphasized on different roles of emerging marketing environment for the strategic designing process of MNCs, including entry strategy, different organizational structure which have a great influence on MNCs' performance. These would be trigerred by the external factors (local market

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environment, government policies) and internal factors which includes the firm's experience and resources.

Focusing on the previous research entry in the market throws light on selection betweenw exporting and FDI. MNC's are the majorly concerned for increasing the internalization across the countries. The present competitiveness and growth of Indian companies in overseas markets is majorly being taken ahead by two trends. Firstly due to the speeding up of Liberalization, Globalization and Privatization (LPG) of Indian economy and secondly due to the development of competitive capabilities by the Indian companies which has brought about major interaction with foreign companies.

STAGES OF EVOLUTION OF MNCS

1. Export stage- It is the foremost stage where firms may depend on the export agents to expand their business into different foreign countries .Moreover it may be that firms may go for foreign sales branch.
2. Indirect entry- It includes Licensing and Franchising which increases revenue earnings for the firm and risk is still under control.
3. Foreign Production stage-In this stage the firm may choose to go for licensing or FDI, but the later is risky due to lack of knowledge initially in that country.
4. Multinational stage- In this very stage, the firm becomes an MNC's where it starts with controlling, planning, coordinating and organizing the R&D, production, marketing, warehousing, staffing and also financing . For doing each of these operations the firm should find the best of its location and manner.

Many Indian business tycoons have chosen their global path in similar manner, which leaded to the growth of Indian MNC's With the passage of time, the Indian firms are acquiring more of the firms globally and are also hiring the employees across the various countries. Also,the reforms of year 1990 have bought may foreign firms to India too.

Need of Internationalization of the firms

Companies go global for various different reasons but the basic aim of the firms is the companies growth of the business or its expansion into various firms. When the company recruits its employees from other country or looks for new markets in other countries, the international strategic planning can help to expand and grow the business.

Globalization is a way in which the firms can rapidly explore new areas for inclusion of various new global clients. This expansion has been bought about by technological innovations in the 20th century which made the communication easier. The presence of the technology has reduced the distance and made it easier to maintain the business from distance. The Global operations are of importance to those executives,who are ready to enhance their profit. Globalization helps to give new chances to underdeveloped countries by allowing them to connect to various different countries in the world. For example, India had joined the hands for servicing the a Russians have made the aircraft carrier in june 2014, jointly with Russia's Sevmash shipyard for the time period of upcoming fourty years for the shipbuilding. These two countries have ties for the long term association in respect of military ties and also for the various other projects. India has built an a training facility for naval pilots with the help of Russian team for practicing aircraft carrier operations. The Indian companies, that are seeking opportunity in Russia are from various sectors like mining, mineral,metal sector (NALCO, National Aluminium Company Limited,) which was incorporated 1981. It has its units in units in Odissa at various places like in the city of Angul and Damanjodi. It was incorporated as an public sector enterprise of the Ministry of Mines,Government of India in 1981 .

Various types of entry modes

1) **Licensing:** Licensing is one of the entry mode which ties the licensee and licensor with a agreement signatures by both the parties for mutual benefit. The right is sold by the licensor to the licensee, for particular time. This right include intangible properties which are inclusive of formulas, processes, patents, inventions, designs, trademarks and copyrights .The royalty fees is paid by licensee to the licensor. The risk of using licensing is uncertainty in environment. But the challenge is of controlling the licensee in terms of coordination.
2) **Franchising**: In Franchising also there is an giving of the royalty fee which the franchisee would get for its business idea with an deal with the franchiser of the organization. The major advantage of franchising is that the firm face less risk for the development risk and cost associated with entering a new global market, similar to licensing. With the prevelance of low risk, the firm can get into the market in an effective way. The main problem that might be faced is probably due to the reason that the franchisee is very tough to control.
3) **Joint Ventures**: A entry mode where two or more parties form the alliance for efficiency. It can be a 50/50 venture, but it is also possible that one party has larger percentage of shares having higher control. Similarly,a low equity mode would result in less control. Its has many advantages as of sharing the knowledge, risk and cost . The disadvantage that conflicts may be there in partnership of the firms.

4) **Wholly-owned subsidiaries**: This entry mode constitutes the ownership of 100 percent in overseas market. It constitutes two methods for overseas investment the firstly, Greenfield venture, where a completely new network, legal entity and work is established. The second method is known as Acquisition whereby the firm acquires other firm in that foreign market. Here the firm don't bear the risk for losing the competitive advantages or uniqueness.

5) **Exporting**: This method shows that business is concentrated in the home country through by the help of which better control can be gained in distribution. The Direct method of export is important when there is smaller volumes for export. This entry mode doesnot constitute the intermediary channel in it.

6) **Turnkey projects**: The turnkey project mode of entry is used when there is need to construct new facilities and also to give training to the personnel. Major benefits of the this type of projects is that firm can earn profits overseas where FDI opportunities are less and there is less skill.

The risk is of revealing of secrets to the competitors and takeover in the host country. This entry mode is used when firm has no long-term interest for business in that country.

Factors affecting the decision making mechanism

INTERNAL FACTORS

The Internal factors which are the major attributes of MNC that affect its different activities-:

1) **Resource commitment/ firm size** It signifies that the method of entry depends on the quantity of the resource which is available. The freedom for selecting the entry mode and the decision for preference to choose mode of entry depends on the resource demand of the industry and size of the company.
2) **Characteristics of the overseas country** business environment can be explored by the knowhow of the host country by knowing their language, habits, culture and foreign market behaviour. It also signifies the information about the overall industry which focuses on the information regarding the levels of industrial development volatility of practices and regulations,, forms and competition.
3) **Global management efficiency** points towards the extent of involvement of the management for the internationalization of an organization. A firm with large extent of global involvement, the companies internal resources

starts to diminish. It may therefore become necessary for redefining the company's overseas strategy.

4) **Speed** This parameter constitute the time a company takes for going global so that it can enter into a foreign market. It may have chosen its methods to expand fast .

EXTERNAL FACTORS

They are many factors that would affect the entry strategies of such as economic, political and social factors. These are the factors on which the MNCs do not have their own control .therefore we will be considering three factors selected from the various articles,which are as follows-:

1) **Culture distance:** This brings into notice abut the variety of beliefs,behaviours and perception style that impact the style of entry
2) **Market barriers**: They brings into notice the barriers like distribution access,tariff barriers, natural barriers, regulations of government, for choosing the path.
3) **Competition intensity:** This parameter signifies the degree or the extent to which companies entry into a global market is simultaneously done by its various other competitors in the market . The no. of competitors in an market can as a result could impact the mode of selection.

Indian MNCs : On The Path of The Globalization

RANBAXY-(Greenfield Venture)

Once Ranbaxy laboratories limited was among top pharma company of India with integrated research based generic medicines trusted by the various healthcare professionals . Sun Pharma acquires Ranbaxy in a US$ 4 billion landmark transaction to create the world's fifth largest speciality generic pharma company in 2015. Ranbaxy's core focus was on research and marketing. Ranbaxy was associated with over 150 countries and has basic ground work in of about 43 countries. Through the support of Greenfield venture by having the association with Daiichi Sankyo group it had penetrated the markets. This company had its core existence in Amritsar in the 1950s as a distributor of a Japanese pharmaceutical company. The Ranbaxy had shown the trend of its growth of going global through both Greenfield and Brownfield ventures which had its link with the government policies. This was for the very first time of globalization of the Indian pharmaceutical industry where an Indian MNC dominated the domestic market .Also the Ranbaxy Malasiya had set up the Greenfield venture of manufacturing there,by signing a letter of offer agreement with Kulim hi tech park which is a wholly owned state agency. KHTP is situated in Malaysia.It provided work to 200 people there. The investment of US$35 million in 15 acres had been made.

In 2012 Malaysian Government showed its interests in the healthcare sector and encouraged the different foreign companies. Ranbaxy had unique competitive advantages that illustrateds the uniqueness of company over the other companies. The Ranbaxy had the same spirit of competitiveness in all the markets it served. Another feature was its manufacturing had a strong backward integration .Not only this but it also had advantage of cost competitiveness and high quality research. Ranbaxy's R&d and innovation skills had enabled it to develop high efficiency. Therefore the market barriers as an external barrier was low due to liberalization of the government moreover the competition intensity was also low, as in case of the internal factor the exploring of the characteristics of the overseas country may be bit tedious but the Ranbaxy had innovativeness as one of the strength of its company, which could diminish this barrier, and the speed was quite consistent for entering the market.

Hero MotoCorp (Joint venture)

The Hero group was founded by 4 brothers .They began from scratch by beginning up with the new business of spare parts of bicycle in 1944 in Amritsar. It operates at present globally over 89 different countries.Hero began their business in 1993.In preset date hero exports manufacture metal, equipment, electric bikes, bicycles, consumer goods.

Hero Exports has a benchmark for its reliability and quality as its core competancy in all its services and products. With their advanced technical benchmark, extensive foreign presence and effective goods-delivery system, all of their projects are executed as per the expectations of the consumers and proper time requirements. The large network of clients has been established with them. Hero partenered with Erik Buell Racingfrom US for making and for developing the bikes and bringing about new technologies for the firm.. In 2013, Hero MotoCorp spent $25 million (Rs 160 crore at current exchange rate) to buy the stake. But later EBR went into "receivership" after it filed for protection from creditors under the state of Wisconsin's bankruptcy rules. EBR was developing for Hero MotoCorp, the HX250R sports bike was the first to debut. While this was originally planned for a mid-2015 launch, the Indian company postponed it and instead advanced the launch of a slew of scooters to leverage the growth in the scooter segment.

DABUR (Franchise)

With the arrival of Indian consumer markets in the urban areas the companies are mainly considering to enter either rural markets or majorly the various foreign markets.Dabur India Limited has also followed the same manner to grow the company in the last few years. Dabur was originated by the person named Dr SK Burman,from West Bengal. He founded the Dabur in 1884 for producing and also to sold the ayurvedic medicines in the market. Dabur operates in the various products like health,oral care, skincare, foods and home care.In present time, Dabur's products are available for consumers in more than 60 countries . Dabur has transformed its global business from being a small scale business to a multi and large scale business with majorly overseas location of the Middle East, North Africa, EU, US, West Africa, South Asia, and the UK . The overseas business of Dabur growing at a CAGR of 36% in the past 6 years and today accounts for appx 20% of Dabur's overall sales.

Inspite of the fact that Dabur is so diversified in nature, but it has never lost its focus from ayurvedic process of natural products. It is an world leader in the ayurveda.

- The main Focus is on growing their major brands across various categories for exploring out new locations inside and outside the home country, and improve the operational efficiency by leveraging technology
- They urge for becoming the preferred company for meeting the specific health and personal needs of our target customers by giving them healthy, safe and natural solutions by having the detailed knowledge of ayurveda and herbs in integration with the modern science
- They Provide their consumers with very innovative and new products within accessible range.

Dabur India entered in Dubai and franchise with Redrock Limited. In the period of 2003 to 2004, Dabur gained two extra manufacturing facilities at Sharjah and Jebel Ali Export Processing Zone .The is known by the name of Dabur International Limited. This branch also taken the charge manufacturing facility located in Egypt.

Franchising is the one of the way that will exist and prosper in crucial times. The various reasons for it is less risk on investment for creating a brand's popularity and generating their higher profits are some of the reasons responsible for the instant growth of the industry. The huge population of NRIs in the GCC countries is of basic factor for the Indian franchisors looking to expand into that region and it giving them the client base, sp3eecifically for the retail based customers.

Redrock Ltd, which operates mainly in the west Asia, also holds a major share in Weikfield International (UAE), a company which is registered in Sharjah, which is into the manufacturing and sale of the cosmetics, toiletries and various food products catered essentially to GCC countries. Culture distance is not affecting the Dabur as an **external factor** because it is operating in international markets having the brand architecture similar to Indian operation. The products are customised to meet the particular requirnments of customers .And **internal factor** of Management risk attitudes is high i.e Dabur willingness to penetrate into a foreign market was strong .

TATA

(Tata acquisitions of Tetly)

Tata is an Indian MNC and an conglomerate group which is headquartered in Mumbai, Maharashtra, India. In its portfolio different business sectors are as: IT, communication, engineering, services, energy, chemicals and consumer products. This company was founded in 1868 by Jamsetji Tata as a trading company. It has its operations in greater than eighty countries across different six continents.

Tata acquired the british company of Tetly which increased the business of Tata from $36 million to $42.6 million

Tata's core competency is in designing the products for various different sectors for different people the Tata tea acquired the Tetly by cautiously choosing the approach by integrating the processes and exploring synergies between the two companies .The acquisition increased the outsourcing and the company move over its value chain by 84% turnover from the teabags.if we see the other way round the R&d the Tata was helpful for Tetly.the combined strengths helped to create opportunities to Increase the sales in uk.In uk- it was the first ever leveraged buyout by an Indian company.The deal was done in 271mn pounds as the take overcost.As far as external factor is concerned both Tata and Teltly were mutually benefited because Tata could make use of Tetly as the already established company and the Tetly could make use of the R&d of the Tata,so there was not much of the external barrier and in case of internal factors characteristics of overseas country can be well tackled by the Tetly. This acquistion is one of very large acquisition across the border.

Structure of Tata Tetly deal

Tata Tea created its SPV which was capitalised for 70 mn pounds, where Tata tea contributed the amount the 60 mn pounds out of this amount 45 mn pounds raised through a GDR issue. The US subsidiary of the company, Tata TeaInc. delivered the rest 10 mn pounds.

ARCHIES LTD(Licensing)

Archies Limited which was also called the **Archies Greetings and Gifts Ltd.** was started in the year of 1979 by Anil Moolchandani, who previously leather

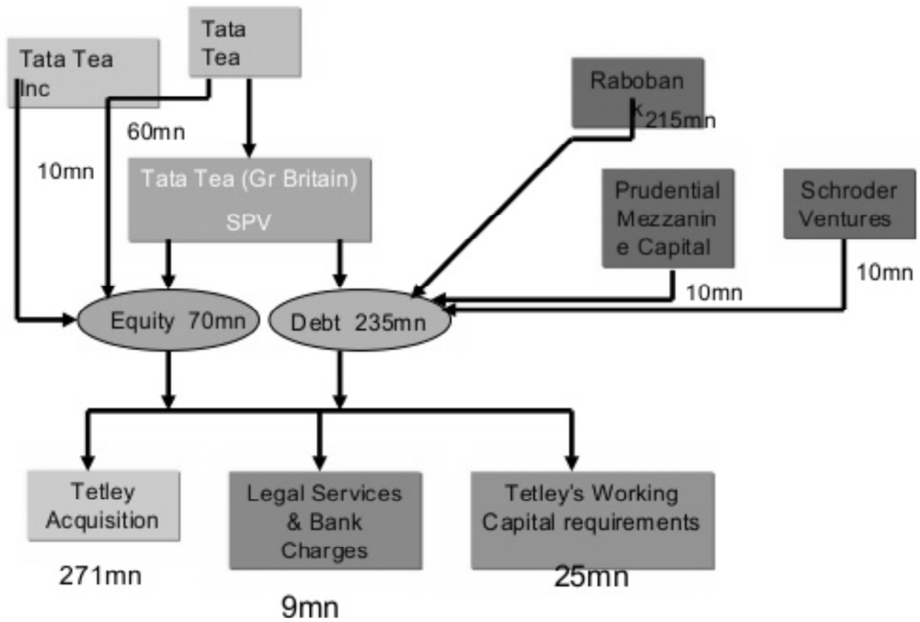

Figure 1

(sourcehttp://www.icmrindia.org/casestudies/catalogue/Finance/Finance%20%20The%20Leveraged%20Buy%20Out%20Deal%20of%20Tata%20&%20Tetley.htm)

patches, posters etc. The company has the product portfolio of various types of greeting cards for various occasions .The company went public in the year of 1995. In 1998 this company was listed on the NSE and the BSE.Archies has approximately 2000 stores with tie-ups and licensing agreements for like Disney characters.

This tie-up would increase the Archies international exposure too as its cards will be sold to Hallmark stores in various countries Middle East, Canada, Australia and the UK during the various festive occasions such as Diwali, Rakhi, and Id. Archies wiould pay a tad below the 10% as an licence fee to the Hallmark. This would bring the leading Hallmark brands such as Crayola art products and the William Arthurs different range of luxury stationery and the merchandise of Snoopy & Garfield within the country through the new retail chain. As per industry estimates, industry size is around 350 crore as far as the interal factor is concerned the management risk attitude and the speed was high because archies didot loose the oppurtuity to for the tieup to show its presence in the other countries and risk taking ability was also was high to tie up with the hallmark.therefore it succeded to grow and expand itself in the foreign countries.and with respect to the paramaters of the external factors the market barriers reduced due to the licencing agreement with the hallmark so mow the Archies could sell through the different stores in different countries.

L&T (EXPORTS)

It is an technology driven company which has integration of engineering with creativity.it offers diversified range of solution and services.This compay is also supported by the various capable leaders .It an Indian conglomerate MNC which is headquartered at Mumbai in India. The company is focused with its interests in various business areas like construction, engineering, information technology manufacturing goods, and various financial services. A company was founded in Mumbai in the year of 1938 by the 2 Danish engineers, named Henning Holck-Larsen and Soren Kristian Toubro. The company began itself as the Danish manufacturers of dairy equipment.

The firm manufactures valves and also looking after the power and oil & gas sectors, is thinking for enhancing the exports in Japan, West Asia, Korea and many other different markets. It is positioned as a very unique and sharp brand and has experience in project execution with strong management their strength is their collaborations with global leaders in field of manufacturing. It has its own big attempt to globalize itself all over the world like the joint ventures in 1993 and in 1976 it build the international airport in Abu dhabi. Moreover it had 30% of its revenue from the global markets.but initially it began its work by export to various gulf countries. For L&T, the thrust on the foreign markets comes at a time when it is targeting to raise its export revenues to 25% of its sales.

The internal factors was that it had high management risk attitude to began its work of exports initially for entering into the different countries for earning more revenue. And the external factors like low competition intensity bagged the entrance of this company into gulf countries.

IRCON (TURNKEY PROJECT)

Ircon International Limited (IRCON) is the company which is kown for engineering and the construction and has its specialization in transport infrastructure. The company began in 1976, by the Indian government under the The Companies Act, 1956. IRCON ltd was registered as an wholly owned entity of the Ministry of Railways by the name of the Indian Railway Construction Company Limited. Its major work is basically the construction of railway projects in home country and in various other countries. The company has its diversification into various infrastructure and transport areas and thereby has good scope of operations across the different nations.

It has unique Project including designing, testing,construction,maitainance, completion of the maintenance of the double track project between the Seremban and Gemas, Malaysia. Ircon integrated itself with Malaysia to revive as a multibillion-dollar rail project which started in 2003 due to its high cost. After the start of this project which was of worth USD 1 Billion in Malaysia and was based on doubling of track, as a result IRCON became initiator of PSU of Ministry of Railways to have the largest turnkey project abroad .As far as the internal factor is concerned we consider that company decides whether to enter into a foreign market or not . It may choose its entry modes to enhance quickly without losing any market the opportunities and the external factor its market entry barrier was less because it worked on contract basis in those countries or cities where it won the projects.

CONCLUSION

Due to the globally enhancement in the commercial activity and with the increase in foreign entries, the entry mode choice of various MNC's into a foreign market has received a great importance. A firm may choose non-equity modes, such as licensing, equity-based modes of entry,exporting and wholly owned subsidiary (WOS), or with the shared ownership, ex- a joint venture (JV) or other modes as discussed in the article. Each of these modes varies significantly in terms of degree of control, risk and resource commitment. The current study in this article examines various factors responsible for influencing the choice of selection mode. It is seen that in comparision to exporting, the Foreign Direct Investment provides the firm with an higher degree ofcontrol over its operations internationally. The profit returns earned the Foreign Direct Investment modes is generally more than those generated due to exporting. The investment modes are affiliated to higher risk. Thereby it is seen in the article that different orgaizations have selected different entry modes depending upon the various internal and external factor affecting their goal. The entry mode are not similar for all Indian MNC's but depends upon the different entry strategy of each company.

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