Global Entry Model For Indian IT Industry: Theoretical And Empirical Approach

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INTRODUCTION

Indian IT industry had a very late start when compared to US or Europe. Yet in the last decade, Indian IT firms have emerged as a global powerhouse in computer software development. Indian firms have transformed from a modest coding and body shopping operation to become a global competitor in a leading edge sector. Indian IT consulting companies are now competing globally with the established industry giants. One of the most important characteristics of globalization is the opening of the national markets to foreign firms, something that has led to intensified competition in these markets (James Leontiades, 1986). Firms all over the globe realize that they cannot expect their sales and profits to grow at satisfactory rates unless they implement appropriate business strategies to sustain and possibly improve the competitiveness of their products in the international markets.

The rise of East Asia followed by growth in China and India has led to the emergence of a new breed of MNEs from these countries. Multinational enterprises from developing countries are a clear representation of a sustained increase in outward FDI from developing countries, which has risen from $60 billion in 1980 to $ 869 billion in 2000 and to a total in excess of $1.9trillion for the first time in 2008 (UNCTAD, 2008). The stock of global FDI grew from $2.5trillion in 1995 to $15.7 trillion in 2008. Annual flows increased from $3.6bn in 1995 to $9.8bn in 2008. In 2008, this accounted for 23% of global outward FDI flows. India is a relatively minor participant in these aggregates. Its share of the global stock of outward FDI was less than one-tenth of 1% in 2008, and Indian outward FDI grew rapidly from $119m in 1995 to $509 in 2000 and $1.8bn in 2008.

It is a fact that the Indian Monetary Integration and the introduction of a common currency have substantially facilitated the expansion of the firm's activities within the boundaries and, therefore, international expansion has now become a feasible strategic option for a larger number of Indian firms (Rakesh Joshi, 2005). The Indian IT industries choose internationalization as an important part of their strategy to succeed in this new liberalized economic environment. This study of Indian IT industry may well provide new insights regarding the relevance for firm internationalization.

GLOBALIZATION OF THE INDIAN INDUSTRY

In the search for new markets, Indian industry has displayed a scintillating spirit and zeal. Over the past eighteen months, India Inc. has acquired a slew of foreign companies across a spread of sectors in their quest to go global. Currently in India, the national economy and marketplace are undergoing rapid changes and transformation. A large number of reasons could be attributed to these changes. One of the reasons in these changes in the Indian Market Scenario is Globalization, and the subsequent and resulting explosive growth of global trade and the international competition. The Indian corporate sector learnt to withstand fierce competition from abroad and then took the battle to the most advanced countries.

For the last few years, with more of India Inc. venturing abroad in software, biotechnology, automotive and oil sectors, India is fast dropping its tag of being a FDI destination and is emerging as a major foreign direct investor. There is something inherently exciting about the news of Indian companies, admittedly only the best rated ones, taking over companies with strong traditions in Western Europe and North America. Hindalco's takeover of Novelis and the Tata's acquisition of Corus are spectacular in every sense of the word but there has already been a steady acceleration in the pace of Indian companies going global. Many of them have made a mark. Bharat Forge is the world's second largest forging company. Ranbaxy is one of the top ten generic pharmaceutical manufacturers in the world. Wipro and Infosys are great brand names globally. The list will expand in the days to come. The Information Technology (IT) sector covers a number of businesses. It contains technology software

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and services, companies that provide information technology consulting and services, technology hardware and equipment, and semiconductor equipment manufacturers. The IT sector is an extremely technology based industry.

DESCRIPTION AND CRITICAL DISCUSSION OF ESTABLISHED THEORIES ON INTERNATIONALIZATION

When reviewing the topic and explanation of internationalization, many theories and models came across. In addition, in alignment with our research purpose, we have chosen four different entry model theories that are well-known. These theories are highly regarded by researchers and are considered to describe the entry mode decision. We will present the models and their key-points and in the end, discuss some limitations of the established internationalization models. We have chosen the theories that we think could be used to explain the way IT industries enter new markets. The theories that we have chosen are:

• **The Uppsala Internationalization Model**: This is a classic internationalization theory. The theory has its emphasis on that a company gradually extends its activities abroad over time (Johanson and Vahlne, 1977). The first school, which consists of researchers, sees operations in foreign markets as risky. They consider the political and cultural differences between countries and prefer a moderate initial commitment when doing business abroad. They want companies to gradually increase their commitment as they acquire knowledge and experience in that market. After many empirical tests related to the Uppsala model, the studies have criticized that the model ignores market potential and competitive conditions in the explanation of the model.

• **Transaction Cost Analysis (TCA)**: This model was initially developed by Coase (1937), and was further improved by Williamson (1981). The focus is on the costs of a foreign market entry mode comparative to its objective, what is the most efficient and economical way of entering international markets (Anderson and Gatignon, 1986). Researchers state that companies will internalize operations that they can perform at a low cost and let others perform activities that can be done at lower cost elsewhere (externalize). When a company externalizes their activities, transaction costs will occur. These costs include amongst other, the cost of monitoring, controlling and inspecting suppliers and products. The second school's advocates assume that transaction cost analysis is one of the most commonly used theory on the research of foreign market entry modes but it is not perfect, some criticism are: Firstly, transaction costs are both difficult to define and measure. Secondly, the purpose of transaction cost analysis is to be a foundation of the decision-making on which entry mode to choose, but transaction costs could only be measured after the use of a certain entry mode.

• **The Electric Paradigm:** This model discusses the firm's advantages in ownership, location and internationalization of processes that influences the choice of foreign market entry mode (Dunning,1980). Dunning stated that a company's entry mode decisions rest on three factors, ownership, location and internalization factors. He calls attention to location factors as he believes them to have an increasing effect on a manager's entry mode decisions (Pan & Tse 2000).The most common critique to the eclectic paradigm is that it is a static theory. It explains how firms use their existing assets in order to enter new international markets and choosing an optimal entry mode, but it does not explain how firms may use its advantages in order to create future assets (Dunning 2001). Another critique is that the model tries to consider all important factors that have an impact on the choice of entry mode but fails to consider the strategic factors among others (Agarwal & Ramaswami 1992).

• **The DMP Model:** The decision making process (DMP) model was proposed by Root (1994) and developed by Kumar and Subramaniam (1997), Pan and Tse (2000), as well as Eicher and Kang (2002). It argues that entry mode choice should be treated as a multistage decision making process. In the course of decision making, diverse factors, such as the objectives of the intended market entry, the existing environment, as well as the associated risks and costs, have to be taken into account. However, it is still not perfect because it ignores the role of the organization itself and that one of the decision maker within the decision making process.

A NEW ALTERNATIVE APPROACH- INDIAN IT INDUSTRY INTERNATIONALIZATION MODEL

Based on strength and limitability of the above mentioned highly regarded established internationalization theories, the proposed paper developed an alternative model, which will help Indian IT companies to enter new international markets. The model has three parts:

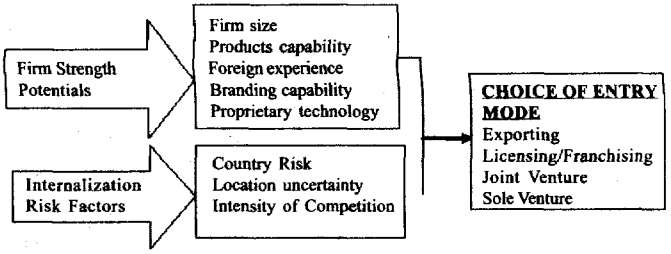
• Firm strength potentials(FSP) • How companies use their company strength potentials • Internationalization Risk Responsiveness

The research study believes that these factors, if combined, can indicate which mode of entry an industry would prefer. A conceptual entry mode framework for IT industry explaining entry mode choice among Exporting, Licensing/Franchising, Joint venture, and Sole venture are shown in Figure 1.

• **Firm Strength Potentials (FSP):** All companies have a specific asset. It could be know-how, foreign experience, brand name, unique & patented products and so forth, which is something the company wants to control. However, in relation between industries, a company's specific assets may not be that important. For instance, the healthcare and IT industry could be seen to have a higher specific advantage and knowledge since it demands much know-how, experience and research and development to succeed in the industry. A company in the healthcare and IT sector are much more technologically advanced, demands more resources, and is more difficult to set up.

• **Internal /External use of FSP:** When a company has company specific assets and advantages, it has two options on how to handle it. The company could use both, the FSP internally and keep the knowledge within the company, or use the FSP externally and let the knowledge be used by others. In turn, when choosing to use the knowledge internally, a company has two options. The company could choose an export entry mode and keep the knowledge internally. This means that the company supplies the whole market from (often) one centralized location. The option minimizes the risk but also the commitment. The other option is to use an investment entry mode, and choose between Greenfield investment and acquisition. Greenfield investment is when the company starts up a new subsidiary from the ground, and acquisition is when the company acquires an already established company or facility. The investment entry mode requires much more financial resources, it involves the highest risk but it gives the company total control and could assumedly lead to higher profits. When choosing to use the knowledge externally, the companies use a contractual entry mode. The option is to either license or franchise. When licensing, a company has no control of what the licensee does, but it allows the company to enter a new market without risk and still increase profits. Franchising works in a similar way as licensing, but involves higher control for the franchiser. The franchisee must follow rules and protocol of how to do business, and the franchiser enters a new market with a bit higher risk than licensing, but with much more control. When entering a joint venture, a company in some degree uses both- the FSP externally and internally.

Figure 1: Conceptual Framework of Indian IT Inc. Entry Mode Choice



Source: Author Estimation

INTERNATIONALIZATION RISK FACTORS

• **Country Risk:** When country risk is high, existing works indicate that IT firms would do well to limit its exposure to such risk by restricting its resource commitments in that particular national domain. A 5-item scale

measuring the respondent's perception of business risk in IT firms is also adapted (Kim and Hwang, 1992).The items are inflation, foreign exchange balance, legal protection of intellectual properties, political uncertainty.

• **Location Unfamiliarity:** Previous studies argue that the greater the perceived distance between the home and host country in terms of culture, economic systems, and business practices, it is more likely that IT firms will shy away from direct investment in favor of licensing or joint venture agreements. This is because the latter institutional modes enhance a firm's flexibility to withdraw from the host market (Vernon, R. 1974).

• **Intensity of Competition**: When the intensity of competition (Porter M. 1989) is high in a host market, existing works assert that IT firms would do well to avoid internal organization; as such markets tend to be less profitable and therefore, do not justify heavy resource commitments.

The industries are analyzed by using the Table 1 below.

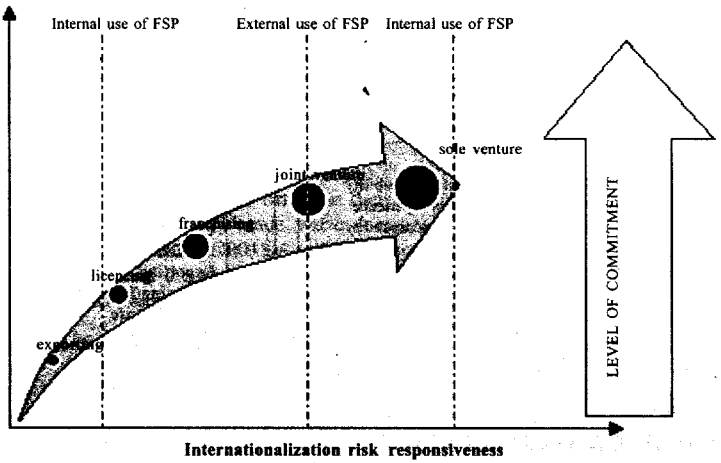
Table1: Basics of the Industry Internationalization Model

Influences / Mode of Entry	Company Strength Potentials	Internal / External Use of FSP	Internationalization Risk Factors
Investment mode	Existing	Internal	High
Export mode	Existing	Internal	Low
Contractual mode	Existing	External	Moderate

Source: Author Estimation

However, companies in the IT sector are often small to medium entrepreneurial companies with high FSP, but with small financial resources and often low/moderate international experience. As sole ventures often are very expensive, it is assumedly not the most common entry mode in this industry. Large financial resources are invested in the development of new and technologically advanced products (Anderson and Gatignon, 1986). To compensate the risk with R&D, the companies can choose an entry mode with lower risk. The companies have the possibility to use the knowledge both internally or externally. The products often have a high value to weight ratio which favors an exporting mode. However, they also often have patents on their products, which make it possible for them to license/Joint venture it. The industry internationalization model illustrates the inter-dependence between the factors as is shown in figure 2.

Figure 2 : The Industry Internationalization Model



Source: Author Estimation

RESEARCH METHODOLOGY

RESEARCH THOUGHT AND STRATEGY

To be able to build a new alternative model, an extensive amount of literature was reviewed. By referring to the most recent and traditional research articles on internationalization market entry, industry internalization decision making tools rely on purely specific fragmented area and fail to consider total internalization risk factors in industry internalization to evaluate the global market dynamism and future potential. Against the backdrop of the above literature, there emerged our research idea to develop Indian IT industry internalization model. The proposed paper tries to create a model that explains the choice of entry mode in Indian IT industries in the international market. Finally, we conducted a survey through an internet-based questionnaire to find out what mode of entry they prefer. Our proposed methodology is deductive in its nature, since we developed a theory and proposition and designed a research strategy to test the propositions (Saunders et al. 2007).

RESEARCH OBJECTIVES

The main objective of the study is to build a formalized integrated alternative model for global entry mode of choice by Indian IT industry. The objective is to investigate and evaluate the business environment and then examine the importance of developing and promoting internationalization to allow IT Industry to develop a competitive position in the international marketplace. In order to achieve this goal, this research focuses on the following pivotal research questions:

1. What models or theories are used to explain the choice of foreign market entry mode?
2. Which factors are most determinant for companies' choice of entry mode?
3. How do these factors affect companies in IT industries?

HYPOTHESES

1) H0: Other things being equal, when FSP and country risk is high/low, then companies in the IT sector will favor internal know-how entry mode that involves relatively high risk Sole venture.

2) H0: Other things being equal, when FSP and country risk is low/high, then companies in the IT sector will favor Internal/External know-how entry mode that involves relatively low/moderate risk Joint venture.

3) H0: Other things being equal, when FSP and location uncertainty is low/high, then companies in the IT sector will favor Internal/External know-how entry mode that involves relatively low risk Export venture.

4) H0: Other things being equal, when FSP and competition intensity is high/ high, then companies in the IT sector will favor external/internal know-how entry mode that involves relatively low/moderate risk Joint venture.

DATA COLLECTION AND SAMPLING FRAME

Entry mode selection was studied post hoc to gain insight into the entry mode decision process. Much of the information needed for the study was unpublished and involved the perceptions of top managers who usually participate in formulating international market entry strategies. Detailed time series database on IT industry and individual country has been collected from India trade and Industry analysis service has been used for measurement of variables. Apart from these, data for analytical purpose came from a mail survey from companies situated in various major STPI (software technology park of India).The survey was targeted to small to medium sized firms in the IT sector. In order to accomplish the desired results, we chose 129 companies registered with STPI in 2008-09 as our initial sample. A comprehensive questionnaire was developed and was pilot tested before being mailed to a list of 129 firms, which constitute the majority of IT firms actively involved in internationalization business. The Key informant approach was used for data collection. Accordingly, the informants for this study were upper level managers who are usually heavily involved in formulating international market entry strategies. Following the initial mail out and a subsequent follow-up approximately 3 weeks later, a total of 78 usable questionnaires were retained for the purpose of analysis, giving an effective response rate of 69.6% percent as shown in Table 2.

Table 2 : Results of the questionnaire

	Non-respondents	Answered that they would not participate in the survey	E-mail delivery failure	Participants	Total number of E-mails sent	Number of E-mail receivers
Number of firms	26	8	17	78	129	(129-17) =112
Percentage of total sample	23.2%	7.1%		69.6%		

Source: Field survey

NON-RESPONSE BIAS

To determine whether non-response bias was a serious problem for the study, two comparisons were made, using chi-squared test of independence. The firms represented by respondents were compared with firms represented by non-respondents (in terms of firm size) to determine whether respondents were systematically different in some important way from non-respondents. The firms that responded early were also compared with those that responded late using entry mode choice as a comparison criterion. Again, the comparison found no significant difference in the distribution of entry mode choice between early respondents and late respondents. Thus, evidence from the two chi-squared analysis suggests that there may not be any serious problems with no-response bias for the firms in our sample.

RELIABILITY & MEASUREMENT

In the questionnaire, respondents were asked to rate how FSP and internationalization risk factors affect the IT firm's internationalization process. In most cases, a 5-point Likert scale (anchored at both ends) was used. After generating and refining a list of items, internal consistency of the scales was determined using Cronbach's alpha (see Table 3). The reliability ranged from a low of 0.71 to a high of 0.81, reflecting acceptable internal consistency. As shown in table 3, in-fact, they all either exceeded 0.71 criterions for basic research. Hence, reliabilities of these factors were judged to be sufficient for our study.

Table 3 : Reliability Analysis Measure Used To Assess The Following Entry Key Factors

Factors	Cronbach's alpha
Company's strength potentials	
Products capability	0.745
Distribution capability	
Promotion capability	
Foreign experience	
Branding capability	
Internationalization risk Factors	
• Country Risk	0.793
i) Political Instability	
ii) Economic risk	
• Location uncertainty	
i) Prior experience	0.7802
ii) Perceived difference between host & home	
• Intensity of competition	
i) Instability of market share	
ii) Number of existing competitors	0.7971
Firm specific know-how	0.8642
• Internal	
• External	0.9531

Source: Field survey

From our survey, there were 112 participating companies that belonged to the Information Technology (IT) sector. Survey responses came from the IT firms as shown in Table 4. A majority of the respondents answer that high international risk responsiveness is significant to IT companies. From the above result, it is clear that the number of employees in a company has no influence on the entry mode decision.

Table 4: Results from the IT industry*

Firms	Employees	Internal/External use of CSP	Degree of firm's strength potential	Degree of international risk responsiveness	Predicted entry mode	Actual entry mode
31	550	Internal	6	3	Export/Licensing	
	500	Internal	7	5	Export/Licensing	
	170	Internal	6	7	Export/Licensing	Export
	550	Internal	6	7	Export/Licensing	
	1300	Internal	4	4	Export/Licensing	
23	70	External	5	6	Export/Licensing	JV
	550	External	4	7	Export/Licensing	JV
	105	Internal	1	1	Export/Licensing	JV/SV
	20	Internal	7	5	Export/Licensing	JV/SV
	95	Internal	5	6	Export/Licensing	JV/SV
24	40	External	6	5	Export/Licensing	JV
	15	Internal	1	1	Export/Licensing	JV/SV
	15	Internal	6	2	Export/Licensing	Export
	31	Internal	5	5	Export/Licensing	Export

Source: Field survey

* All these indicators were assessed on 5-point Likert-type scales.

Table 5 shows that the mean value and median of the degree of FSP is statistically high. This motivates the majority's decision to use the FSP internally. This also confirms our proposition. In addition, standard deviation of international risk factors is statistically high that shows high level of commitment from sole venture companies' adopting in their entry mode strategy. This motivates the majority's decision to use a high commitment entry mode. However, seventy-one participants believe that export is the most common entry mode in the IT industry. This does not correlate with their perception about the existence of internationalization risk and their high FSP.

Table 5: Statistical Analysis of the IT industry

	Degree of company strength potential	International risk responsiveness
Mean value	4.9	4.6
Median	3.0	3.5
Standard deviation	1.81	2.07

Source: Field survey

RESULTS OF HYPOTHESES TESTING

The results of the hypotheses tests are summarized in Table 6 and 7. Table 6 presents the results from the logistic regression analysis using one independent variable at a time, while table 8 presents the result of the combined logistic regression model including all the relevant independent variables. In interpreting the results of the logistic regression analysis presented in table 6 and table 7, a positive sign for the coefficient of an independent variable implies that increasing values enhance the relative utility of the dependent variable, while a negative sign implies the opposite. In other words, the odds of adopting the predicted entry mode increases when the coefficient of the independent variable is positive and the test statistics are significant.

Table 6 : Individual Logistic Regression Model

Variables	Coefficients	Intercept	WALD (significance)	Modelχ2 (significance)	Correct classification(%)
Firm size +	1.209	-4.935	13.45(p=0.0002)	18.34(p=0.0005)	71.54
Product capability	0.556	-2.608	2.14(p=0.14)	2.39(p=0.12)	67.69
Foreign experience	0.592	-2.652	7.34(p=0.007)	7.84(p=0.005)	66.92
Branding capability	0.285	-0.156	6.28(p=0.01)	6.69(p=0.0097)	67.69
Proprietary technology	0.157	-0.042	16.71(p=0.0005)	19.28(p=0.0005)	68.46
Country risk	1.548	-1.325	5.24(p=0.02)	5.37(p=0.0205)	70.00
Location risk	0.843	-2.325	23.19(p=0.0005)	31.16(p=0.0005)	76.15
Competition intensity	0.621	-2.025	31.24(p=0.0005)	51.16(p=0.0005)	83.08

Notes: Significance p<.05; += full control;

Source: field survey

The outcome of the individual estimation results is summarized in table 6. As table 6 shows, there is empirical support for H1, H2, H3 and H4.Table 7 presents the summary of the output from the logistic regression with all the independent variables. The table shows that the model is statistically significant (Model $\chi 2$=114.016; p<0.00005). The model correctly classifies 86 percent of the cases. This statistical outcome suggests that the independent variables have significant impact on the dependent variable.

Table 7: Combined Logistic Regression Model

Variables	Coefficients	WALD(significance)
Firm size +	2.570	11.056(0.0009)
Product capability	0.361	0.869(0.3512)
Foreign experience	2.045	10.721(0.0011)
Branding capability	0.790	6.641(0.0100)
Proprietary technology	0.360	2.077(0.1495)
Country risk	1.56	3.094(0.0786)
Location risk	0.8185	4.482(0.0349)
Competition intensity	0.925	4.987(0.0395)

Significance *p<0.1;**p<0.005; N=78 Model $\chi 2$=114.016 with df=12
-2 log likelihood=49.568; correct classification rate=86 percent.

Table 8 provides the classification accuracy of the discriminate functions for the three distinct entry modes. All three individual group ratios met the criterion that a rough estimate of the acceptable level of predictive accuracy should be at least 32% greater than by chance (i.e, 54.4%,38.3%, and 22.3%, for joint venturing, wholly owned subsidiaries, and Exporting respectively) and is shown in Table 8. The results suggest that the discriminate functions have performed well in classifying the three distinct entry modes.

Table 8 : Foreign Market Entry Mode and Current Main Business Mode

	Export	Joint venture	Sole venture
Predicted Entry mode	96(85.7%)	58(51.7%)	35(31.2%)
Current mode	61(54.4%)	43(38.3%)	25(22.3%)

Source: Authors Estimation

We can conclude the analysis of the IT industry by noticing that the industry internationalization model works relatively well when it describes IT companies' entry mode. A majority choose an entry mode that matched their degree of FSP and their need of internationalization risk responsiveness. This can arguably be translated to that the factors in the model helps to explain the IT companies' choice of entry mode.

CONCLUSION AND SUGGESTIONS FOR FURTHER RESEARCH

This paper focuses on the internationalization of companies & mode of entry choice when entering a new market, with a focus on the Indian IT industry. The purpose of this paper is to analyze the most acknowledged theories on internationalization and develop a new model that can be tested on different companies to see the applicability. However, all theories were a base for the development of our model. The purpose of the model is to explain industries' entry mode decision. We conducted a survey to test the model and received a good support on the model.

The presented study has a number of limitations, which need to be considered before any recommendations are made. Firstly, it should be recalled that an investigation survey is conducted on small and medium-sized companies that might have a different view on the subject than larger companies. At best, the presented results can ,therefore, play a small part in an overall attempt to provide an explanation of industry internationalization.

However, despite these limitations, a number of managerially important recommendations can be drawn from this analysis, particularly when, in order to determine the stability of the results, it would have been more interesting to do a larger survey and receive higher response rate in each industry. Secondly, it would be interesting to examine a survey on companies in other sectors and different countries and see whether this same model can be applicable or not.

PRACTICAL IMPLEMENTATIONS

The industry internationalization model can function as a guide for companies and people responsible for management of companies in the industries that was explained by the model. It could be used as a good overall view for companies regarding the internationalization risk effects and how to use them to enhance the firm strength effectiveness. In addition, it can work as a decision model to choose entry mode strategy. The model could also be used to analyze different sectors of the industry. Managers can draw other useful lessons from this study. The resource-based framework presented in this paper appears to be good tool for evaluating alternative entry modes. By using this model, the managers can predict the competitors' move. Another way is to use it for an educational purpose – that of reviewing the industries' mode of entry.

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