AN EMPIRICAL STUDYOF THAILAND'S FOREIGN MARKET ENTRY MODE CHOICE

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ABSTRACT

This study aims to answer two questions: i) what are the factors that influence the market entrance model? ii) The impact between thosefactorsand the market entrancemodel. The objectives of this study are i) analyze the factors that determine the selection of the overseas investment model by listed companies in Thailand ii) consider how the investment style is related to the decision-making process. The eclectic theory of Dunning consisted of Ownership, Location, and Internalization advantageis applied to investigate the investment factors. The multinomial logistic regression model is applied to test the hypothesis and deployedcategorical regression method from 125 companies in Thailand Stock Exchangeinvestingin CLMV. The results showed that the size of the business did not affect the form of investment. Experience in conducting business in the country, organizational characteristics, investment risk, market potential, and product development capabilities have a significant effect on foreign investment patterns. The most effective factor is the experience of conducting business in the country, investment risk, market potential, the organization and its ability to develop products, respectively, is important factors in determining the selection model into the international market.

Keywords: Entry Mode Choice, OLI Approach, Thailand, CLMV

INTRODUCTION

The importance of foreign direct investment is becauseit allows companies to compete and grow in the global economy, achieving different investment objectives such as resource and labor seeking market seeking, and efficiency-seeking. To increase production efficiency, generate added value for the business, diversify business risks, not just relying solely on local resources or markets. To help create commercial and investment opportunities, providing more balanced international capital flows (Bank of Thailand, 2020). Deciding on an overseas entry mode, such as export, licensing, venture capital, and sole investment, is a very important strategy for foreign investment. The model is directly linked to the level of possible ownership in the overseas resources, which can be assessed bythe loss of time and money (Root, 1994). There are many determinant factorsin foreigninvestment, including external factors such as political, social, and economic, and internal factors such as investment readiness, strategy, investment model, return, risks, ownership, and more.

Many theories describe foreign investment models. One of the most popular theory is based on the Eclectic Theory of foreign investment advantage: the ownership advantage, location advantage, and internalization advantage of production (Dunning, 1980; 1988; 1998), supported by research studies such as Kogut & Singh (1988) investigating factors that influenced the choice of investment style between venture capital and single-person investment. Davidson & McFetridge's (1985) study of factors influencing the model selection, between obtaining a patent and investing solely. Terpstra & Talaga studied the expansion of foreign direct investment. Agarwal & Ramaswami, (1992) study the behavior of the production unit that affects the model to enter the market as well as the relationship between factors that influence market entrance. It was discovered that production units with a low level of ownership advantage would not enter the international market, or will deploy a

low-risk entry model such as the export model. On the other hand, a large number of production units with a high level of ownership advantage choose joint venture and patent investments instead, etc. Previous studies focused on developed countries such as in the US (Terpstra, 1988); in Europe (Nakos & Brouthers, 2002); in Norway (Randoy & Dibrell, 2002), etc. Only a fewnumbers studied in developing countries e.g. in Vietnam (Tsang, 2005). This research will focus on developing countries,especially on Thai foreign investment, because the increasing ofThailand's investment in various regions increased from US $ 551.44 million to US $ 14,016.97 million in 2019, especially with ASEAN investment being number one, namely Hong Kong, Singapore, Japan, Vietnam, Laos, Myanmar, Cambodia, respectively (Bank of Thailand, 2020).

Approximately 1 in 3 of the country's net investments is invested in ASEAN countries. (Bank of Thailand, 2020). Thailand investing in CLMV countries are to expand the business, seek new resources, increase competitiveness, increase production efficiency, and transfer technology and innovation. Investment in CLMV is very high, at 79% of total foreign investment. The average value increased over the year, during 2005-2009 from the US $395.002 million to the US $1,000.002 million, and during 2010-2014 increased again to US $2,089.2 million during 2015-2019. The most invested country is Vietnam, at the US $1,019.306 million, followed by Myanmar at the US $491.67 million, Laos at the US $420 million, and Cambodia at the US $158.132 million, respectively. Consider Figure 1.

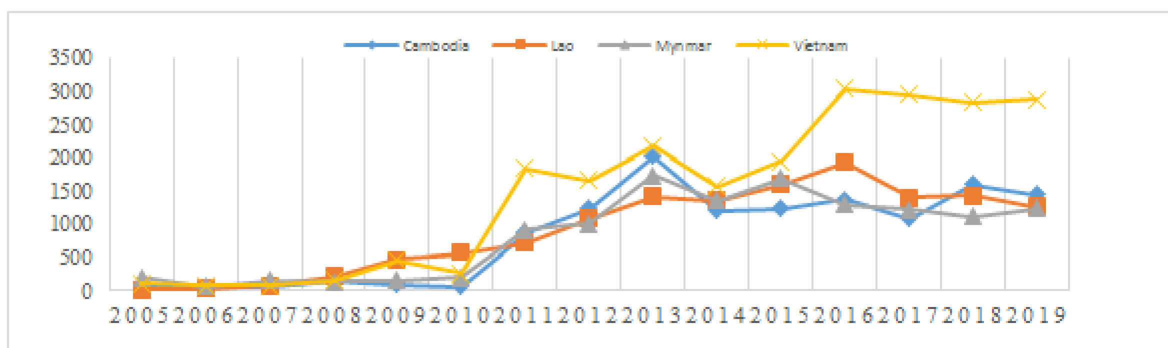

FIGURE 1
THAILAND'S INVESTMENT IN CLMV BETWEEN THE YEARS, 2005-2019.

This study aims to answer two questions: i) what are the factors that influence the market entrance model? ii) the impact between thosefactorsand the market entrancemodel. The objectives of this studyareto analyze the factors that determine the selection of the overseas investment model by listed companies in Thailand andconsider how the investment style is related to the decision-making process. Therefore, this studyused a survey technique to obtainthe information on factorsthat determines the model of foreign investment and direct measurement techniquedeployedof location and internalization factors. Direct measurements are obtained by assessing market and investment risk management, as well as the cost of contractual risk, risk of service quality deterioration, and the risks knowledge sharing in the invested country. Perceptual measurements are useful in measuring the internalization advantages, especially shown to be difficult to measure by previousresearches. Unlike location advantage, indicators measure of internalization advantages has not been properly identified in the literature on modern market entry patterns. Management perception is relevant in assessing the advantage of the specific location. Previous research has established the location advantage as external. Therefore, the foreign investment production units are a constant factor for the host country (Dunning, 2000; Dunning, 2001). But this study is attempting to measure these variables as a function of different managerial perceptions

originates from different experiences in different countries, the depth of knowledge of that country, etc. The importance of the decision-making process is well supported by numerous pieces of literature. The rest of the paper is divided into three parts. First is the literature review in the hypothesis development. The second part, explains the details of the research, implementation of data collection, and research methods. The last part explains the results and critiques around the importance of management, theory, and policy.

LITERATURE REVIEW AND HYPOTHESES

To access the international market is a choice between risk and returns, dictated by the ready access to resources and authorized ownership (Cespedes, 1988). Resources included the financial capacity and managementinfluence the company's decision to invest and compete in the international market (Anderson & Gatignon, 1986; Hill et al., 1990), investment mode uses fewer resources, which generate low risk/reward profile, would apply smaller ownership stake, for other models, higher investment resource generate higher risk/reward profile need larger ownership stakesuch as joint venture, licensing, and sole investment required. Dunning'sconcept has developed into a framework used todescribe the factors that define theforeigninvestmentmodel as follows:

The ownership advantagesrefer to having important assets and the skills needed in the market patents, contracts, and economies of scale (Gomes-Casseres, 1989; Erramilli, 1996). These factors create different investment risks. The company's proprietary ownership or technology will enable increase bargaining power in the invested countries (Zhao & Zhu, 1998; Mattoo et al., 2001; Lecraw, 1984). The consideration of the ownership advantage that affects the investment style consists of the size of the company, the overseas experience of the business unit, and the ability to producedifferentiated productsas the followingdetails. Firm sizeis a factor that reflectedthe ability of the business unit to absorb costs, the resources available in foreign investment. There is a positive collaboration between the size of the business unit and its entry into the international market (Doz, 1988). Large businesses already have the required resources, they should be able to manage efficiently and minimize risk in entering the low potential market and would choose a sole venture over a joint venturemodel (Gomes-Casseres, 1990: Yiu & Makino, 2002), supported by the research of (Buckley & Casson, 1998; Kumar & Subramaniam, 1997; Caves & Mehra, 1986; Tsang, 2005). It becomes thefirst hypothesis thatthe size of the business unit will affect the choice of investment model in the international market. Theinternational experiencewill generally help reduce the cost and uncertainty in the new foreign market and can develop that business further to the international standard. (Erramilli, 1991;Tihanyi et al., 2005). Business unit with low or no overseas experience is more likely to have management problems in foreign countries would need greater control in that management (Caves & Mehra, 1986; Gatignon & Anderson, 1988). A business that has a lot of international experience would have fewer management problems in foreign countries. This created more opportunities to earn better returns in the market andmore likely to choose joint venture over sole investment. A joint venture allows businesses to share not only costs and risks but assets and skills with the investment partners (Beamish & Banks, 1987). The second hypothesis is international experiencewill affect the selection of investment models in the international market. The ability to develop a differentiated product/servicehelps reduce the long-term loss of revenue risk due to sharing knowledge to the host country, and for them to turn around and use these skills to produce on their own. The choice of the investment model with the differentiated product has much-supported research, such as Anderson & Coughlan, 1987; Caves & Metra, 1986. The business is looking for ownership or direct assets participating in overseas expansion, to make it successful, to minimize the less profitable risk and seizure regulations risk, etc., have led businesses to choose a higher control model (Eaton & Gersovitz, 1983;

Pan, et al., 2000). The third hypothesis is the ability to develop differentiated products will affect the selection of investment models in the international market.

Location advantages refer to markets that are attractive because it is an opportunity to gain high returns, dictating from the market potential, that is supported by previous research include Dunning 1995; Dunning 1998. Market potentialconsiders many dimensionssuch asthe size and growth of the market dimension that attracted sole affiliates foreign investors who wish to gain return in the long run (Taylor et al., 1998; Brouthers, 2002), the gain resulting from internalization (Gomes-Casseres, 1990; Taylor et al., 1998). Countries with a high potential market would have an investment model that achieves long-term profit through economies of scale, as well as the reduction in the cost of the final unit of production. Changes in government policies might result in a problem involving returning capital, and in extreme cases, the expropriation of property (Root, 1994). Strict regulations of the host country are likely a barrier to short-term investments. Market growth can measure market attractiveness (Brouthers, 2002). A business entering into the market as a joint venture would look for a market with high growth to avoids the cost of opportunity associated with delayed entry into the market (Hennart & Larimo, 1998). The market entry that happens through a joint venture model is faster because learning outside the organization is faster than learning from the inside (Madhok, 1998). The opportunity cost is high in the dynamic market (Cleeve, 1997; Chang & Rosenzweig, 2001). Entering the market by affiliates model has slower access to production knowledgebecause knowledge transfer is much slower than the joint venture Hennart (1991). Thefourth hypothesis is market potentialwill affect the selection of investment models in the international market.

Internalization advantagecan execute mass production with guaranteed quality around the world, making the product well known to consumers and the global stage. The product achieveda standard in production. This will enable the overseas subsidiary to benefit from the trade, by them having to learn to use the same technology and management systemsas the one used in the origin country and promote the transfer of knowledge between the origin and hosted country (Dunning, 2001). A low governance model will be costly compared to taking over assets and skills if the manager cannot predict the future (Kogut & Zander, 1993). The fifth hypothesis is the adaptability of the internal organization affecting the selection of investment models in the international market.

In this paper, we developed the foreign investment model from reviewing past research, identifying independent variables or the determinants of the foreign investment model in the process. They arethe ownership advantage factor is measured by the size of the business unit, the overseas experience of the business unit, and the ability to develop differentiated products. Location advantage factor can be measured from market potential andinvestment risk. The international advantage factor can be measured from contractual risk factors.

RESEARCH METHODOLOGY

A previous literature review is shown that there was many industry-specific investment models study, for example, the service industry (Ekeledo & Sivakumar, 1998; Dunning, 2006), the banking industry (Sabi, 1988; Choi et al., 1986), and the advertising industry (Terpstra & Yu, 1988); etc. A few research looks at developing countries. Therefore, this research is interested in studying the factors determining the overseas investment of developing country, and choose to study in Thailand as a case study. The above hypothesis was tested with companies listed on the Thai Stock Exchange that also investedabroad. The tested variable referred to the investment options such as export model, license model, joint venture model, and sole venture model. Neighboring countries were selected here, Cambodia, Laos, Myanmar, Vietnam. Data collectionusing a questionnaire consisting of the

measurement above to test the clarity and accuracy of the content before asking for the opinion. Questionnaires is completed by the chairman, executive director, head of the department, or direct assignee from the chairman exclusively. They can represent real situations where possible to get to the full picture. This research utilize listed companies on the stock exchange of Thailand in 2020, group into seven categories 21 food industry companies, 5 industrial consumer companies, 34 financial companies, 21 real estates, and construction companies, 24 natural resources companies, 64 service companies, and 10 technology companies, to the total of 125 companiesthat had invested in Cambodia, Laos, Myanmar and Vietnam. 96 companies corporate with this study in providing information to the questionnaires, equal to the response rate of 49.23%, which is an acceptable proportion and will be further evaluated.

RESEARCH RESULTS

The research results found that the ownership advantages,differentiated product development, the companies that developed knowledge and skills through training to prepare individuals for conducting business abroad are important factors at (X=3.85, SD=0.951)more than other factors. Experience abroad, the company has a high level of overseas experience is found to be (X=3.83, SD=1.073) more than the company's gross foreign revenues accounted for the percentage of the estimated total revenues, the company that can govern international business in technology, management, and financial capabilities that expand overseas investments. The Thaicompany which had the market potential (a part of location advantagesfactors) willdo business in a foreign country. The company considers the attitude of the state to invest in foreign countries, and the company considers the attitude of the states on the countries investing. The investment risk showed economic conditions for foreign investmentand the risk of sending money back to the country to foreign investment risk (X=3.80, SD=1.101). On the trading, the cost was found that the company had operating costs.

The specific assets in offshore company operations. The company has costs arising from uncertainty from external and internal factors, the company has the potential to take advantage of free access to foreign investment, such as facilities, infrastructure, utilities, etc. For the internalization advantagesfactors werefound that the contract risks that the company's cost of contracts or enforcement against the company in the international level or more. The company that offers the standard quality of service and can maintain this if administered in conjunction with foreign companies. In terms of distance, or geographic or cultural differences, it was found that the company managed to differ in practice, standards, procedures, regulations, etc. with localities. Companies have a responsibility to the local resource. The company has gap differences in technology of the local invested companies.

The important factors that influence the decision of foreign investment in Thailand were found two variables, the ability to develop a differentiated product, and the nature of internalization of the organization, significant variable correlated with foreign investment at 95% confidence. The other variables such as the size of the business unit,overseas business experience, market potential, and investment risksare associated with the investment model significantly at the 90% confidence level,see Table 1.

Table 1
SHOWS THE RELATIONSHIP OF THE INVESTMENT MODEL WITH FACTORS INFLUENCING THE DECISION.

Investment style		Sig. (2 - tailed)	N	Relationship
Firm size (SB)	0.191	0.062	96	Not significant at 95% confidence (significant at 90 %).

International Experience (IE)	0.200	0.051	96	Not significant at 95% confidence (significant at 90 %).
Product Differentiate(PD)	0.258 **	0.011	96	Significant at 95% confidence.
Market Potential (MP)	0.200	0.050	96	Not significant at 95% confidence (significant at 90 %).
Investment risk (IR)	0.154	0.135	96	Not significant at 95% confidence
Internationality Organization(IC)	0.338 **	0.001	96	Significant at 95% Confidence (Significant at 90 %).

It was accepted the two hypotheses that the ability to develop differentiated products and the adaptability of the internal organization will affect the selection of investment models in the international market. However, the research results reject three factors: the size of the business unit, the experience of the business unit, and the potential of the international market affects the choice of the foreign investment model. Consider business typefound that the Thai company invested in financial business, food industry and service industry, respectively, with the joint venture model and sole venture branches, exporting and licensing model. See table 2.

Table 2
SHOWS THE INVESTMENT PATTERN OF THAI OVERSEAS INDUSTRIES IN CLMV.

Business Type	Investment style			
	Mode 1	Mode 2	Mode 3	Mode 4
	(Exporting)	(licensing)	(Joint Venture)	(WOS)
Financial business		31.6	42.1	26.3
Food industry	5.6	16.7	38.9	38.9
Service industry	29.4	29.4	17.6	23.5

To test all independent variable coefficients by using the categorical regression technique, the estimates are also converted to standard valueswith a normal distributionand can be compared between the independent variables. This makes regression line estimates more efficientin both linear and nonlinear ways, while reduces the multicollinearity problem as well (McCormick & Salcedo, 2017). The results found that the model is significant and independent variables in the modelare reliable. The independent variable hypothesis test uses the F statistic (or t squared statistic) as a testing tool. The hypothesis for this regression line isthe data does not contain negative numbers at all. The model can explain investment style, independent variables describing significant investment patternsare differentiated product development and characteristics within the organization or Internationalization of the organization. The effect of product development variables on investment models is higher than Internationalization of the organization variables significantly at the level of 0.05, consider F Statistics. See Table 3.

Table 3
SHOWS THE VALUE OF THE COEFFICIENTS OF THE INDEPENDENT VARIABLES

Coefficients					
	Standardized Coefficients		**df**	**F**	**Sig.**
	Beta	**Bootstrap (1000) Estimate of Std. Error**			
Size of business (SB)	-0.318	0.322	1	0.974	0.326
Multinational experience (ME)	-0.754	0.417	1	3.262	0.074
Product development (PD)	0.502	0.275	2	3.319	0.041 *
Market potential (MP)	0.426	0.415	1	1.058	0.307
Investment risk (IR)	0.126	0.291	2	0.186	0.831
International characteristics (IC)	0.441	0.157	3	7.915	0.000 *
R Square =.347, Adjusted $R^{2=}$0. 270, SSR=33.303					
N=96, F=4.515, p-value=0.000					

The results obtained from the estimation factors affecting the investment style may bepresented in the form of an equation as follows:

FORMINV2=- 0.318 SB -0.754 ME+0.502 **PD***+0.426 MP+0.126 IR+0.441 **IC***

By assigned the definition of variables as FORMINV=forms of foreign investment, the SZ=size of business. IE=domestic business experience, OC=organizational nature, IR=investment risk, MP=market potential, PD=product development ability. The model testing for multicollinearityproblems byusing a correlation test performed on the value of each variable. Table 4 shows the correlation between the variables that determine the value of the consideration (correlationszero-order) from the usual correlation (Pearson correlation). The relationship between the investment models with other variables such as the size of the business was -0.014. For other statistics, the meaning is similar, such as the relationship between investment style with PD variable is 0.249, and the relationship between investment style with IC variable is 0.282. In this research, only zero orders are considered, which can be comparedbetween variables to find out which have the most or least influence on investment style. International characteristics and product development have the greatest impact. See Table 4.

Table 4
SHOWS THE CORRELATION BETWEEN THE VARIABLES THAT DETERMINE THE VALUE OF CONSIDERATION

Correlations and Tolerance						
	Correlations			Importance	Tolerance	
	Zero - Order	Partial	Part		After Transformation	Before Transformation
Size of business (SB)	-. 014	-. 284	-. 239	. 013	. 566	. 511
International Experience (IE)	. 010	-. 449	-. 406	-. 023	. 291	. 261

Product development (PD)	. 249	. 392	. 344	. 360	. 471	. 457 *
Market potential (MP)	. 211	. 347	. 299	. 259	. 491	. 409
Investment risk (IR)	. 092	. 126	. 102	. 033	. 663	. 488
International characteristics(IC)	. 282	. 407	. 361	. 359	. 668	. 591 *

SUMMARY AND DISCUSSION

Firstly, investment risk factors,thepart of the location advantage factor,has a strong influence on the investment pattern of Thailand's business to the CLMV countries compared to other factors, such as the market potential factor, andthe trading cost factor. Therefore, investment risk factors are considered in dimensionsof the risk of political, social, and economic stability conditions for foreign investment, the ability to bring income back to the country on overseas investments, seizing money or assets of a business unit from abroad. The risk of contract on the part of internalization advantages. Distance/ geographic/ cultural differences with localities are high level of responsibility for local resources, a country's technological distance, or difference to the local company of the country where it is invested. Secondly, testing the model was found that the product development capability was different, and characteristic factors within the organization or the internationalization of the organization are the key variable, determining the form of a significant investment at 95% confidence. The other variables such as the size of the business unit, overseas business experience, market potential, and investment risks significantly correlated with investment style at 90% confidence. Thirdly, factors of ability to develop different products, whichis the part of the ownershipadvantages, consider the companyhas the potential to produce new products, create a new business, restructuring for new business operations abroad, and quality in product manufacturing, has the greatest influence on foreign investment models than other factors such as the size of the business unit and the overseas experience. Finally, problems and obstacles for investing abroad arethe attractive foreign investment factorsarethe increased awareness, environment, and competition level, followed by the local resources, organizational ability, and foreign institutional environment at a very high level. For example, determining the proportion of investments in foreign countries, the right to benefit/profit repatriation, ownership of the property holdings, rights, taxation, public policies, pricing/yield statistics, absorption capacity. These influences are at a very high and maximum level. Factors of choosing entry modeinto an international market are country-specific factors to invest in and manage the company. The problems With the Company's overseasinvestment are the restrictions on the rules of law, country regulations. Second is high cultural differences, instability political/and economy.

The recommendationis that the Thai governmentshould consider reducing the legal and regulatory between countries byhostingto negotiate with foreign countries, state-to-state, to request a relaxation in policy such as regulations, laws, profit transfer measures, banking finance, and trade negotiations to benefit both economies together and create laws that open up more freedom for investment opportunities. The Thai government should encourage foreign investment by appealing benefits such as receiving tax privileges inimport and export, a financial boost, low-interest rate loan,increase the innovation budget, state-guaranteed loan to expand the business,get privileges in various fields to help to conduct work easily, and bring money back to the country properly. Reduce restrictionsof language and cultural restrictions.

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