Navigating Institutional Voids

A case study on the role of institutions on entry mode choice for Danish firms within the Indian water sector

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“The Indian water market is chaos for the untrained eye. Nonetheless, it’s organized chaos - there is a flow and you need to be able to decipher that flow”

- Interviewee CF2,1
ABSTRACT

Motivated by Danish interest in the Indian water market and a growing academic attention to emerging markets’ entry modes, this thesis sets out to examine entry mode determinants of Danish water firms in India. In response to inconclusive and contradictory findings, and hence appeals for future studies addressing how the institutional context affects firms’ entry mode choices – especially in conjunction with the resource-based view and in emerging markets – this thesis aims at complementing this research gap. This is done through a multi-theoretical framework with a particular focus on the role of market intermediaries – in effect, expanding current multi-theoretical approaches with a distinct view on the role of market intermediaries in reconciling or exacerbating the state of institutional voids and the subsequent effect on entry mode choice. The theoretical framework is subsequently applied, through a multiple case study, to three case firms and three sector experts within the Danish water industry in India.

The findings indicate that a focus on market intermediaries reveals pertinent entry mode determinants, such as access to reliable sectorial information and functioning labour markets, which would be left unidentified through a traditional institutional approach. Effective market intermediaries seem to function as purveyors or providers of the knowledge needed to effectively navigate a market wrought with institutional weaknesses – a domain otherwise tacitly bound to local firms. Consequently, firms can reduce external uncertainty through the aid of market intermediaries, while still limiting internal uncertainty through a wholly-owned subsidiary (WOS) mode of entry in markets with significant institutional voids. As a result, effective market intermediaries seem to increase the likelihood of entering a market through a WOS. Nonetheless, a prerequisite of a successful entry – especially a WOS mode of entry in an institutionally distant country – seems to be strong firm resources. Consequently, it is within the interplay between firm and institutional variables that an entry mode is decided, while market intermediaries determine the tacitness of the required local knowledge, and thus the dependence on partnering with local firms.

Hence, if the findings are substantiated further, researchers and managers alike should consider employing multi-theoretical approaches to entry mode choice and take into consideration the effect of market intermediaries. This could increase the explanatory power to entry mode choice for researchers and aid managers’ entry mode selection.

Keywords:
Institutions, institutional voids, institutional theory, entry mode choice, resource-based view of the firm, transaction cost theory, market intermediaries, asset specificity, internal and external uncertainty.
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<tr>
<td>BRIC</td>
<td>Brazil, Russia, India and China</td>
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<td>DI</td>
<td>Dansk Industri</td>
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<td>DWF</td>
<td>Danish Water Forum</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>HQ</td>
<td>Headquarter</td>
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<td>IFDI</td>
<td>Inward Foreign Direct Investment</td>
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<td>IT</td>
<td>Institutional Theory</td>
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<td>IFU</td>
<td>Investment Fund for Developing Countries</td>
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<td>JV</td>
<td>Joint Venture</td>
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<td>MNC</td>
<td>Multinational Corporation</td>
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<td>PPP</td>
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<td>Transaction Cost Theory</td>
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1. INTRODUCTION

What determines foreign entry mode choice? Along with the increasing internationalisation of global markets, this question has been one of the most researched topics in the field of international business over the past few decades (Brouthers & Hennart, 2007; Canabal & White, 2008) and is perceived to be strategic for a firm’s overall business performance (Zhao, Lou & Suh, 2004; Sharma & Erramilli, 2004). As a result, there exists an extensive array of literature focused on explaining entry mode choice and pinpointing pertinent entry mode determinants (for an overview, see e.g. Brouthers & Hennart, 2007). Among the most prevalent theories and frameworks on the subject are Transaction Cost Theory (TCT), the Resource-Based View (RBV), and more recently Institutional Theory (IT), which together account for a sizable majority of the published work on foreign entry mode choice in recent times (Ibid).

The interest in and research on host market institutions with regard to entry mode choice has, in line with growing interest in emerging markets, expanded significantly over the past two decades, as firms increasingly engage in emerging markets, which now constitute the lion’s share of global growth (Bevan, Estrin, & Meyer, 2004). Most scholars agree that the host market institutional environment has a vital effect on the success of a chosen entry mode in emerging markets (Wright, Filatotchev, Hoskisson & Peng, 2005; Peng, Wang & Jiang, 2008). Compared to developed economies, institutions in emerging markets are often less stable and predictable, market interactions are time-consuming and corruption is widespread (Khanna & Palepu, 2010). The proposition “institutions matter” is therefore hardly novel or controversial in the literature on entry mode choice (Peng et al., 2008; Hennart, 2012). The interesting question is, however, how institutions matter – i.e. “under what circumstances, to what extent, and in what ways” (Powell, 1996, p. 297). Thus, with the goal of maximising firm value, how should firms tackle the institutional environment of the host market and how should these considerations be implemented with regard to firms’ internal resources, which, as advocated by the RBV literature, likewise have a significant effect on entry mode choice (Meyer, Wright & Pruthi, 2009)?

Despite decades of research, the general conclusion on entry mode determinants seems to be that “...our cumulative understanding of these determinants in relation to entry mode choice is mixed and inconclusive, as the existing literature has documented disparate results and yielded inconsistent findings with a wide range of methodologies employed” (Zhao, Luo & Suh, 2004, p. 525; Brouthers & Hennart, 2007; Canabal & White, 2008; Slangen & Tulder, 2009). This is attributable to, among other factors, differences in the
operationalisation of institutions (Ahsan & Musteen, 2011) and to the varying weight assigned to firm-specific resources (Brouthers, 2013). In this regard, researchers have encouraged further studies addressing the institutional effect on firms’ entry mode choice, especially in emerging markets and in conjunction with the RBV – an under-researched area, where firms’ internal resources potentially become more asset-specific due to institutional deficiencies or voids, such as a weak regulative regime or a weak labour market (Peng et al., 2008; Meyer, Estrin, Bhaumik & Peng, 2009; Khanna & Palepu, 2010; Hennart, 2012; Holtbrügge & Baron, 2013).

This thesis acts on the lack of research by conducting an in-depth, qualitative multiple case study on entry mode choice for Danish firms within the Indian water sector, in which interviews based on three case firms and three industry experts constitute the empirical data. The motivation for analysing the Danish water industry and the Indian market is based on the internationalisation potential of the Danish industry and the institutional challenges of the Indian sector – an area believed to constitute one of the greatest humanitarian and political challenges in India over the following decades (Barlow, 2010). Furthermore, as will be elaborated upon in the methodology section, the approach of the thesis could uncover novel academic and practical insights. The theoretical foundation builds upon existing integrated frameworks, where TCT, RBV and IT perspectives are merged (Peng et al, 2008; Hennart, 2012) while adhering to Khanna, Palepu and Sinha’s (2005) Five Context Framework to cover the institutional perspective, where the role of market intermediaries – a relative novel variable in this regard – on entry mode choice is in focus. The incorporation of these theories is based on the rationale that the theories individually focus on different, yet pertinent and congruent aspects of entry mode determination; namely, firms’ internal resources, the influence of the external environment and the consequent effect on hierarchal versus market cost of business coordination (Peng et al., 2008; Morschett, Schramm-Klein & Swoboda, 2010; Hennart, 2012).

1.1. Research Question

The main research interest of the thesis is to address whether an extended institutional perspective, covering market intermediaries in addition to formal and informal institutions, is applicable in a multi-theoretical approach to entry mode choice for western firms in emerging markets. Consequently, the theoretical framework, which acts as the foundation of the analysis of the empirical data, will draw inspiration from Khanna and Palepu’s (2010) focus on market intermediaries, as well as scholars integrating diverse theoretical strands to entry mode choice (Peng et al., 2008; Hennart, 2012). Market intermediaries,
in the form of, inter alia, the labour market and research agencies, are of interest in this context, as these could either strengthen or weaken the effect of institutions on entry mode choice for foreign firms. This leads to the following research question:

- **How does the institutional context affect entry mode choice for Danish firms within the Indian water sector?**

In order to effectively answer the research question, three sub-questions must be dealt with, namely:

1. **What are the theoretically proposed determinants of entry mode choice?**

The effect of institutions on entry mode choice is potentially contingent on numerous other entry mode determinants (Peng et al., 2008). Thus, a thorough review of the entry mode literature will highlight pertinent work on the subject, pinpoint current inconsistencies in the literature and expose the research gap. The literature review will bring about the theoretical framework, which lays the foundation for the direction and work of the thesis’s exploratory research.

2. **What institutional voids exist in India for the firms in question?**

Based on the proposition of institutions being a main determinant of entry mode choice, secondary data along with the interviews, will identify the institutional voids in India in accordance with the Five Context Framework (Khanna et al., 2005).

3. **How do the identified voids affect the applicability of transferring firm resources?**

Institutions, combined with firm resources, determine the transactional cost of transferring and applying firms’ resources to a host market. Thus, the interplay of internal resources and external characteristics determine firms’ tolerance for risk, their dependence on host market knowledge and their need for control in an entry mode. How, compared to the theoretical predictions, do managers weigh these interdependent determinants?
1.2. Delimitations

This thesis departs from studies defining entry mode, entry strategy and internationalisation interchangeably, where a broad perspective covering among other things locational analyses, marketing efforts, and timing is taken into consideration (Cavusgil, Ghauri & Akcal, 2012). The sole focus of this thesis, and thus the delineation of entry mode choice, is limited to the firm’s choice of subsidiary mode and governance – the next logical step after a firm has decided to enter a market (Lasserre, 2008). Consequently, FDI openness and market potential, which are central to market selection and market strategies (Porter, 2008), will only be applied when relevant to entry mode choice and the research question (Brouthers, 2013) – in effect, taking a secondary role in comparison to firms’ resources and the institutional environment (Khanna & Palepu, 2010: Gao, Murray, Kotabe & Lu, 2010). The reason for this is twofold. First, there is limited, if any, academic ambiguity with respect to openness and market attractiveness and entry mode choice. The more open and attractive a market is, the more likely foreign firms are to utilise a WOS mode of entry (Morschett et al, 2010) due to, for example, the relative ease of access to market intermediaries (Khanna & Palepu, 2010) and the compensation of market attractiveness towards the increased risk associated with an equity commitment (Brouthers, Brouthers & Werner, 2003). Second, no formal FDI restrictions were identified within the Indian water sector – in neither the primary nor secondary data. Consequently, FDI openness as a formal or legal institutional void is not applicable to foreign firms within the water sector in India.

1.3. Structure

The thesis is structured as shown in Figure 1. Chapter 1 introduces the topic and the research question for the thesis. Chapter 2 presents the literature review, which is divided into a TCT, RBV and an IT section, where the theories are presented, criticised and the inconsistencies are highlighted. The chapter concludes by presenting the theoretical framework used in the thesis. Chapter 3 presents and subsequently evaluates the research methodology. Chapter 4, based on secondary data, presents the Indian water market and Danish water competencies, in addition to presenting an overview of the institutional environment in India. Chapter 5 categorises the primary data – the interviews – through a cross-case analysis according to the determinants identified in the theoretical framework. Chapter 6 discusses the empirical data on the basis of the theoretical framework and highlights differences and potential adjustments. Chapter 7 presents the potential theoretical and practical implications of the findings and makes recommendations for future research. Chapter 8 concludes the main points of the thesis.
2. LITERATURE REVIEW

To address sub-question 1, which states: “what are the theoretically proposed determinants of entry mode choice?”, the literature review will, in addition to establishing sub-sections on entry modes and the theoretical framework, include sections on TCT, RBV and IT. In line with Ahsan & Musteen (2011), the thesis adheres to proposals that RBV and IT complement – not supplant – the fundamentals of TCT, as entry mode choice requires considerations of the costs and benefits of externalising, as opposed to internalising, a business activity. Furthermore, all three theoretical strands share the objective of maximising shareholder value – albeit through different means (Brouthers & Hennart, 2007).

This thesis is inspired by more recent work on merging IT and RBV, especially the work of scholars such as Peng et al. (2008) and Hennart (2009; 2012), who have applied integrated frameworks on western firms’ entry mode considerations in emerging markets. Consequently, the thesis adheres to the literature that links improved subsidiary performance to firms incorporating an expanded array of determinants in entry mode choice.
mode choice (Nakos & Brouthers, 2002; Dunning & Lundan, 2008; O’Cass, Liem & Nima, 2012; Brouthers, 2013). As a result, the bulk of the theoretical framework presented in this thesis is built on the foundation of academically established correlations, where the applied determinants have been carefully conceptualised and justified. The exception is the inclusion of market intermediaries and entry mode choice – an unemployed, yet potentially decisive institutional determinant, which is developed and applied based on the reasoning of Khanna & Palepu (2010; O’Cass et al., 2012).

The literature review is organised as follows. First, the fundamentals of entry mode are presented; subsequently entry mode choices are reviewed and evaluated from the TCT, RBV and IT perspectives, respectively. The section concludes with a presentation of a theoretical framework that synthesises the strengths of each theoretical perspective with the objective of giving an overarching and coherent overview of entry mode determinants in emerging markets.

2.1. Entry Modes

Welch, Benito and Petersen (2007, p. 18) define entry mode as “The institutional/organizational arrangement that is used in order to conduct an international business activity”. An entry mode therefore deals with the way in which a firm organises its business activities in markets residing outside the firm’s home market. Entry mode classifications have traditionally been categorised as equity mode vs. non-equity modes of entry (Canabal & White, 2008). Non-equity based entry modes are contractual agreements without an internal presence in the host market, such as licensing and exporting (Pan & Tse, 2000), while equity-based entry modes include wholly-owned subsidiaries (WOS), where the firm is in sole control of the operation, and joint ventures (JV), where the firm has a partial ownership of another company (Brouthers & Nakos, 2004). In line with RBV research on entry modes, WOSs can further be divided into greenfield investments, where the firm starts a new operation in the host market, or a takeover acquisition, where the firm takes over an existing operation (Meyer, Wright & Pruthi, 2009). In accordance with Estrin, Baghdasaryan and Meyer (2009), this thesis will use the term cooperative entry mode to cover both JVs and acquisitions.

A chosen entry mode entails a number of trade-offs, as it attains different degrees of control, defined as the authority over strategy and operations (O’Cass et al, 2012), as well as exposure to risk, i.e. the possibility of financial loss or other adverse or unwelcome consequences. Likewise, the degree of resource commitment and flexibility varies according to entry mode choice (Cavusgil et al., 2012) – a high control entry mode, for
example, increases internal operational control, but also entails a larger resource commitment, decreased flexibility, and thus a higher exposure towards risks (Holtbrügge & Baron, 2013). Figure 2 depicts these trade-offs.

*Figure 2: Entry mode trade-offs (adapted from Cavusgil et al., 2012)*

Exporting is the least resource committed entry mode, as all transactions are executed through the external market, entailing low operational control and risk, while a WOS, which is completely internalised, is the most resource committed entry mode. Other forms of investments, such as licensing and joint ventures, lie somewhere in between these two extremes. As will be elaborated upon in the RBV section, access to host market knowledge is likewise a pertinent factor regarding entry mode choice. As a result, entry mode choice is a function of balancing the trade-off between the need for control and the exposure towards risk, in addition to considering access to potential tacit host market knowledge (Brouthers & Hennart, 2007; Meyer, Wright & Pruthi, 2009).
Welch, Benito and Petersen (2009), among others, have advocated for a more complex approach to entry modes as firms often utilise hybrids entry modes and/or simultaneous usage of several establishment modes. Brouthers and Hennart (2007), for example, identified 16 different entry modes based on previous studies. Consequently, entry modes in practice are rarely as straightforward as described in the academic literature and it is therefore difficult to differentiate or categorise actual entry modes (Meyer & Tran, 2006; Brouthers & Hennart, 2007). As will be further discussed in chapters 6 and 7, this is also applicable to the case firms in this thesis, as they do engage in, among other things, non-equity partnerships and memoranda of understanding. Nonetheless, for the sake of theoretical applicability and practical comparison, this thesis will focus on equity modes of entry. The reason for this is threefold. First, the thesis adheres to a number of studies, especially those on emerging markets, which utilise the trichotomy of JV, greenfield and acquisition modes of entry (Meyer, Estrin et al., 2009; Slangen & Tulder, 2009; Hennart 2012; Dikova, 2012). Second, all three case firms are present in India through an equity mode of entry. Third, in conjunction with the thesis’s emphasis on the institutional environment, a direct presence in the host market increases the influence of institutions compared to non-equity modes of entry (Khanna & Palepu, 2010), and thus allows for better examination of the institutional determinants.

The differences between these three entry modes and the effect of the determinants on entry modes will be elaborated in the concluding section of this chapter.

2.2. Transaction Cost Theory

TCT is the most widely used theoretical perspective in international entry mode research (Brouthers & Hennart, 2007; Canabal & White, 2008). Fundamentally, TCT seeks to address why economic transactions are organised the way they are (Williamson, 1994), while the theory of the firm is in TCT rooted in market failures – especially market failure of intermediate inputs, which necessitate internal governance due to increased transaction costs (Ibid). Transaction costs (TC) denote the costs of participating in the market, or, in the case of a market entry, the “cost of negotiating contracts, monitoring the performance of the venture, and monitoring the behaviour of those who entered into the contract” (Taylor, Zou & Osland, 1998, p. 393). The assumption behind TCT is that firms, by minimising TCs, maximise profits and, as a result, firms should adopt a governance structure or entry mode that generates the least amount of TCs when internationalising (Williamson, 1985). Hence, in markets without significant market failures, TCs would be negligible and firms, due to improved efficiency, would utilise the external market (Martins, Serra, Leite & Ferreira, 2010). Nonetheless, markets are rarely perfect due to a number of assumptions and dimensions, which will be elaborated below.
2.2.1. Transaction Cost Drivers

Opportunism

Portrayed as “self-interest seeking with guile” (Williamson, 1985, p. 30), opportunism denotes the potential self-interest of agents and partners, leading to the problem of unpredictable and potentially exploitable behaviour (Williamson, 1985). The risk of opportunism raises TCs, as additional safeguards need to be put into effect (Brouthers & Nakos, 2004). Opportunism decreases within the boundaries of the firm, as both the propensity to engage in opportunistic acts and the cost of monitoring measures decreases (Estrin et al., 2009). Thus, if the risk of opportunistic acts is considered high due to the uncertainty of partners, the characteristics of a firm’s resources or institutional volatility in the host market, then the TCs of using the external market will increase in relation to hierarchal costs (Brouthers & Nakos, 2004).

Bounded Rationality

Intensified by the liability of foreignness (Zaheer, 1995), firms suffer from bounded rationality, understood as individuals’ cognitive and spatial limitations, which prevents firms from perfectly understanding or duplicating their competitive advantage outside of their home market (Williamson, 1985). Transferred to entry mode considerations, bounded rationality entails increased TCs as asymmetric information leads to extensive information, bargaining and enforcement costs for firms in a host market with which they are not familiar (Ibid).

Internal Uncertainty

Internal uncertainty or behavioural uncertainty stems from the bounded rationality or the inability of a firm to predict, understand and utilise employees and partners in a given location (Brouthers & Hennart, 2007). Internal uncertainty increases the costs of operating in a market, as internal misunderstandings and the risk of opportunism increase, and consequently the firm needs, among other things, to put into place control safeguards and invest in comprehensive research and training (Williamson, 1985).

External Uncertainty

External uncertainty or environmental uncertainty denotes the inability to predict and deal with the environmental challenges or risks originating in the host market of the investing firm (Brouthers & Hennart,
2007). The degree of external uncertainty is contingent on the host market’s institutional environment (Brouthers & Nakos, 2004) in addition to the chosen entry mode of the firm, as an internalised mode of entry could increase the exposure of the investing firms towards environmental risks (Slangen & Tulder, 2009). The higher the external uncertainty in a given country, the higher the TCs, leading to increased risk when internationalising (Peng et al., 2008).

**Asset Specificity**

Asset specificity is the cornerstone of TCT and “the importance of asset specificity to transaction cost economics is difficult to exaggerate” (Williamson, 1985, p. 56) Asset specificity is defined by Brouthers and Nakos (2004, p. 231) as “physical and human resources, which may lose value in another use, that a company employs to complete a specific task”. Thus, it both deals with the deployability or fungibility of a given asset, such as technology or human capital, and the potential risk and cost of that transfer to another setting (Zhao et al., 2004). Asset specificity is therefore closely related to the assumptions of opportunism, bounded rationality and uncertainty, as bounded rationality and uncertainty inhibit the deployability of firms’ resources beyond a firm’s home market. Simultaneously, asset specificity, owing to the uniqueness of the firms’ product, may form the basis of a competitive advantage and thus increase the risk of opportunism and the need for additional control measures (Brouthers & Nakos, 2004).

### 2.2.2. TCT Determinants

Theoretically, TCT predicts that when asset specificity is low, a firm’s resources are easily transferable and the risk and consequences of opportunistic behaviour are low, which leads to a reduced need for a high control entry mode (Williamson, 1985). Similarly, when asset specificity is high, as the case could be for a firm-specific advantage rooted in a superior technology to be transferred to an institutionally weak market, the deployment of the process could entail extensive training and corresponding risks of opportunism and high switching costs, resulting in a preference for a high control entry mode (Anderson & Gatignon, 1986; Brouthers & Nakos, 2004). Nonetheless, the findings of asset specificity being an explanatory variable for entry mode choice are contradictory (Zhao et al., 2004) and insignificant (Brouthers & Hennart, 2007).

The same lack of congruence is found with regard to external uncertainty (Nakos & Brouthers, 2002; Brouthers & Hennart, 2007; Estrin et al., 2009), which is theoretically argued and quantitatively supported in some studies to lead to firms adopting lower involvement modes of entry (Williamson, 1985; Brouthers...
& Nakos, 2004), as “JVs are a vehicle to reduce external uncertainty” (Slangen & Tulder, 2009, p. 276). The rationale is that this reduces the risk of the investment, lets the firm utilise the knowledge of local partners, and creates more flexibility to adjust and develop according to circumstances (Anderson & Gatignon, 1986).

The degree of internal uncertainty is closely related to the uncertainty in the host market and the extent of a firm’s internationalisation experience (Johanson & Vahlne, 1990; Slangen & Tulder, 2009). RBV-based studies have found that firms with greater international experience tend to choose equity entry modes in order to decrease internal uncertainty when internationalising, as their internally developed control mechanisms are capable of effectively coping with the threat of opportunism and potential organisational challenges (Brouthers & Nakos, 2004). Hence, firms that have developed control mechanisms through previous internationalisation face less internal uncertainty and therefore fewer TCs when entering new markets (Ekeledo & Sivakumar, 2009). Conversely, when firms lack the experience to diminish the effect of internal uncertainty, they could rely on a domestic partner to reduce the risks in the host market – thus leading to a preference for collaborative entry modes (Williamson, 1985). Nonetheless, as will be elaborated in the RBV section, contradictory and inconclusive findings have also been found in this regard (Brouthers & Hennart, 2007).

In sum, the effect of asset specificity and uncertainty on entry mode choice is indeterminable and vague and the academic literature has not reached a consensus on how best to measure and operationalise these concepts (Brouthers & Hennart, 2007; Canabal & White, 2008). The core of this conundrum is most likely rooted within the IT and RBV literature, as increased asset specificity raises the need to control an investment, but simultaneously increases the need for cooperation as well, as readjusting resources in an institutionally distant market is complicated without local knowledge (Slangen & Tulder, 2009). Worded differently, the specificity of an asset and its effect on entry mode choice is dependent both upon the asset itself and also the absorptive capacity of the firm and the institutional voids in the host country.

2.2.3. Criticism

TCT has been criticised for its lack of predictive power and the lack of contextualisation (Meyer & Tran, 2006; Brouthers & Hennart, 2007), both with regard to the institutional contexts and to resource-based arguments (Maekelburger, Schwens & Kabst, 2012). Furthermore, TCT has been developed and applied based on stable and well-developed market mechanisms; consequently, scholars are challenged when applying TCT to environmental settings characterised by incomplete and fragmented institutions (Meyer &
Peng, 2005). This lowers the predictive power of the TCT perspective in institutionally weak markets, as pertinent TCs are difficult for researchers to pinpoint and assess. TCT has likewise been criticised for too narrow a focus on cost minimisation, instead of a more encompassing focus on overall value generation and firm specific advantages (Meyer, Wright & Pruthi, 2009). Whereas TCT focuses solely on exploiting current firm advantages through lowering TCs, firms today tend to focus on a more dynamic approach, where resources are augmented through their internationalisation efforts (Madhok, 1997; Wright & Pruthi, 2009) and where institutional voids create benefits for firms capable of dealing with these effectively (Ahsan & Musteen, 2011). Consequently, in order to address the shortcomings of the TCT approach, scholars have merged TCT with both the RBV and IT in order to expand its explanatory clout and align the theory with emerging markets (Meyer, Estrin et al., 2009; Khanna & Palepu, 2010; Hennart, 2012).

2.2.4. Conclusion

TCT captures the fundamentals of entry mode choice. A firm, based on the asset specificity of its resources and the presence of uncertainty, contingent upon opportunism and bounded rationality, needs to weigh the cost and risks of internalising versus externalising an activity. The goal is to select an entry mode that corresponds to the needed degree of control, while at the same time minimising the TCs involved. Perceived in this light, RBV and IT, while broadening the approach to entry mode choice, still incorporate the TCT premise of selecting an entry mode on the basis of uncertainty and asset specificity – arguably making RBV and IT extensions to the TCT approach as opposed to independent theories (Ahsan & Musteen, 2011).

2.3. The Resource-Based View

The RBV, also termed the knowledge-based or organisational capabilities view, centres on a firm’s unique bundle of resources and its ability to form a competitive advantage within a given market (Barney, 1991). Resources are, in this regard, defined by Barney as: “all assets, capabilities, organizational processes, firm attributes, information, knowledge etc. controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness” (Ibid, p. 101). On the basis of a set of firm-specific resources, firms therefore develop resource-based sustainable competitive advantages – defined as “valuable, rare and imperfectly imitable and for which there are no commonly available substitutes” (Ibid, p. 102) – in order to generate economic rents in the market.
Applied to entry mode choice, the RBV deems firm-specific resources to be a main driver of firms’ entry mode strategies (Peng, 2001; Ekeledo & Sivakumar, 2004). Sharma and Erramilli (2004, p. 9) state that “the benefit sought is the effective and/or efficient transfer of resources to the host market, with minimal erosion in their value”. Hence, the unit of analysis shifts from isolated transactions and cost minimisation, as advocated in TCT, to the exploitation and development of firms’ resources – thereby providing a more dynamic perspective, where the choice of entry mode is driven by maximising the value of the transaction (Meyer, Estrin et al., 2009). Firms therefore need to take into account the capability of their resources to support a given entry mode in addition to generating value through either the exploitation or the augmentation of these resources (Madhok, 1997; Ekeledo & Sivakumar, 2004; Meyer, Wright & Pruthi, 2009). Firm-specific resources, in this regard, can be acquired and developed from a variety of sources, ranging from production technology and brand perception to networks and affiliations with government authorities. In addition, firm-specific resources can stem from what Brøthers, Brøthers and Werner (2008) label dynamic learning capabilities, where firms develop resources that ease subsequent entry modes and decrease the liability of foreignness based on previous internationalization experience (Meyer, Wright & Pruthi, 2009; Khanna & Palepu, 2010).

2.3.1. Resource Augmentation

A preliminary entry mode consideration from an RBV perspective is whether the firm has the necessary resources to enter a foreign market (Madhok, 1997) and whether it is dependent on local knowledge to achieve optimal performance (Tsang, 2000; Meyer, Wright & Pruthi, 2009). The prerequisite for local knowledge influences entry mode choice, as different entry modes yield different degrees of access to local knowledge. In this regard, WOSs need to be differentiated into takeover acquisitions and greenfield investments, as cooperative entry modes provide better access to local resources compared to greenfield investments (Meyer, Wright & Pruthi, 2009; Estrin et al., 2009). Thus, a firm’s internal resources, in addition to the external environment, determine, to use Meyer, Wright and Pruthi’s (2009) terminology, whether the entry mode should aim to exploit or augment its resources in the foreign market. As a result, in addition to looking at the risk/control trade-off of entry modes, as advocated by TCT, an inclusion of the firm’s need to augment its resources should be weighed in as well. Figure 3 depicts the differences in control and resource augmentation with regard to entry mode.
In effect, this means that firms need to go beyond assessing their resources in isolation, and instead match the applicability of their resources to the idiosyncrasies of the host market (Brouthers & Hennart, 2007; Ahsan & Musteen, 2011). Consequently, host market idiosyncrasies and uncertainty are not, by default, a liability as suggested by TCT, but could, over time, constitute a competitive advantage, as the firm, compared to competitors, develops the resources to effectively navigate this uncertainty (Khanna & Palepu, 2010). The need for resource augmentation, or dependence on local knowledge, is particularly pertinent in emerging markets, as investing firms often need tacit, context-specific resources in order to overcome the liability of foreignness (Wright et al., 2005; Meyer, Estrin et al., 2009).

2.3.2. RBV Determinants

With roots in the Uppsala Internationalization Model (Johanson & Vahlne, 1977), numerous scholars have suggested a correlation between equity modes of entry and firm size and international experience (Brouthers & Werner, 2008; Holtbrügge & Baron, 2013). International experience generates valuable knowledge that decreases the overall cost and risk of subsequent internationalisation, while experience in emerging markets reduces the institutional risks of dealing with underdeveloped factor markets and weak institutional systems – a main driver for TC in emerging markets (Estrin et al., 2009; Holtbrügge & Baron, 2013). In the same manner, larger firms tend to be more willing and capable of investing significant resources into a foreign expansion mode (Agarwal & Ramaswami, 1992; Madhok, 1997; Brouthers & Werner, 2008). Hence, firm size and experience reduce the liability of foreignness and the dependence on local knowledge; consequently, firm size and international experience are expected to be positively related to a WOS mode of entry (Ekeledo & Sivakumar, 2004; Brouthers & Werner, 2008; Ahsan & Musteen, 2011).

Knowledge intensity, or proprietary technology, (Ekeledo & Sivakumar, 2004) deals with the degree of tacit knowledge, i.e. non-codified knowledge or technology involved in a firm’s product, process or management operations. A high degree of tacit knowledge increases the TC of external cooperation due to extensive...
need for training and control, among other things, while increasing the exposure to opportunistic risk and brand/quality deterioration (Estrin et al., 2009). Consequently, if knowledge-intensive firms enter markets through collaborative entry modes, they need to set up costly control mechanisms, especially in countries with weak institutions (Estrin et al., 2009; Khanna & Palepu, 2010). As a result, the RBV literature generally concludes that the greater the knowledge intensity, the more inclined firms are to internalise the activity, especially through a WOS, as a JV would expose the firm to the above mentioned risks and TCs (Madhok, 1997; Brouthers & Nakos, 2004; Sharma & Erramilli, 2004; Brouthers & Hennart, 2007; Meyer, Wright & Pruthi, 2009).

The degree of resource augmentation deals with the dependence of the investing firm on local tacit knowledge needed to operate efficiently, which can be particularly pertinent in emerging markets, as these markets often comprise a significantly different institutional environment compared to western firms’ home markets (Meyer, Wright & Pruthi, 2009; Hennart, 2012). The need for resource augmentation is expected to be positively related to cooperative entry modes, as the more the resources need to be augmented or adjusted to the host market, the more dependent the firm is on the host country knowledge potentially residing within domestic firms (Tsang, 2000; Meyer, Wright & Pruthi, 2009).

2.3.3 Criticism

The traditional RBV literature largely ignores the external and institutional environment underpinning strategy formation – or in other words, the RBV largely treats institutions as background material (Brouthers, 2013). Nonetheless, resource-based advantages could be inadequate in the formation of entry mode choice, as external uncertainties limit the value of these resources, while internal uncertainties make the application and transfer of these resources unwise (Khanna & Palepu, 2010; Brouthers, 2013). As in the case of TCT, this most likely coincides with the fact that most of the RBV literature stems from research on western markets with a stable market-based institutional framework (Peng et al., 2008). However, stable and uniform institutions are not necessarily the case in the rest of the world, as is evident by research from, among others, Hall and Soskice (2001), Khanna et al. (2005) and Estrin et al. (2009). Thus, there is a need to implement institutional considerations into the RBV perspective.
2.3.4. Conclusion

The RBV perspective, unlike TCT, assumes sole ownership as the default entry mode (Ekeledo & Sivakumar, 2004). Consequently, the RBV advocates that the more sustainable a firm’s competitive advantage is, the more likely the firm is to utilise a WOS entry mode (Barney, 1991) due to both the difficulty of effectively transferring knowledge externally and the risk of opportunism and brand/quality deterioration – especially in emerging markets (Morschett et al., 2010). As a result, entry mode choice from an RBV perspective ultimately depends on the costs and risks of transferring firm-specific knowledge internally in comparison to the costs of using market transactions. If a firm has the resources to operate a sole venture and is able to either transfer or generate the necessary knowledge independently, it will opt for a WOS mode, especially if there is a threat of opportunistic behaviour (Brouthers & Hennart, 2007). The RBV framework supplements TCT in two central ways. First, it switches the unit of analysis from the transaction to the firm and makes value maximisation, and not cost minimisation, the ultimate goal. Second, it focuses on firm-specific factors and differentiates between the exploitation and augmentation of its resources in the host country.

2.4. Institutional Theory

There is broad agreement among scholars that institutions matter and have an effect on business practices; however, the degree of this impact, and how they matter for foreign firms, is still unclear (Meyer & Peng, 2005; Hotho & Pedersen, 2012a). Despite both the RBV and TCT perspectives touching upon the effect of institutions in the form of uncertainty and resource augmentation, institutions are still perceived as secondary in comparison to TCs and firm resources (Peng et al., 2008). According to IT, on the other hand, “institutions directly determine what arrows a firm has in its quiver as it struggles to formulate and implement strategy and to create competitive advantage” (Ingram & Silverman, 2002, p. 20) – especially with regard to emerging markets (Peng et al., 2008; Estrin et al., 2009). Hence, institutional voids have a significant influence on market imperfections and TCs, from which the core of TCT is derived (Peng et al., 2008; Khanna & Palepu, 2010; Brouthers & Hennart, 2007; Brouthers et al., 2008). The aim of IT is therefore to determine an entry mode, which “reduces the institutional pressures and risks caused by political, financial and economics weaknesses (Holtbrügge & Baron, 2013, p. 241).

Traditionally, the theoretical and practical attention of IT theories has been focused on what Khanna and Palepu (2010) label macro-specific factors; namely, the overall quality and efficiency of a country’s
institutional framework and its effect on internationalisation strategies (Khanna & Palepu, 2010). As a result, differences in national business systems or considerations on market intermediaries, stemming from comparative institutionalism, (Hotho & Pedersen, 2012a) are often overlooked. This is problematic, as these directly influence the viability of firms’ internationalisation strategies (Meyer, Estrin et al., 2009; Khanna & Palepu, 2010).

This thesis acts in response to recommendations calling for a broader institutional approach to entry mode choice, where, especially, differences in national business systems or market efficiency are taken into account. Consequently, in conjunction with Khanna et al.’s proposition, this thesis will adapt the Five Context Framework regarding institutional determinants on entry mode choice (Khanna et al., 2005). The Five Context Framework covers both country and market-specific institutions, and consists of five distinct contexts; namely, openness, the political and social systems and the product, labour and capital markets (Ibid). The adaptation of this framework should satisfy academic proposals for a wider institutional approach (Brouthers & Hennart, 2007) as well as the utilisation of institutional pluralism, or at least a more plural institutional approach (Hotho & Pedersen, 2012a), as North’s (2010) formal and informal institutions, in addition to Khanna’s market intermediaries, are taken into consideration (Khanna & Palepu, 2010).

This section will proceed as follows. First, the overall institutional approach will be specified and justified in relation to the research question in order to reduce potential ambiguities and misunderstandings (Hotho & Pedersen, 2012b). Second, each context in the framework will be presented and linked to previous research, with the exception of openness, which has been covered adequately above. Third, an overview of institutional factors and their theoretical influence on entry mode will be pinpointed. Fourth, a critique of IT will be presented, followed by a conclusion.

2.4.1. Institutions, Institutional Voids and the Five Context Framework

In their seminal book, “Winning in Emerging Markets – A Road Map for Strategy and Execution”, Khanna and Palepu (2010) state that a fundamental premise emerging markets share is the transactional inefficiency of bringing together buyers and sellers at most, if not all, aspects of the value chain. Thus, institutions facilitating the functioning of markets – a prime source of TCs – are inefficient and, as a result, institutional voids, defined broadly as institutional distances or institutional deficiencies within all aspects of the Five Context Framework (Khanna & Palepu, 2010; Santangelo & Meyer, 2011), ensue. Institutional voids are especially detrimental for foreign firms, as these firms may lack the resources to effectively
manage unreliable market information, inefficient intermediary institutions, unpredictable government actions, and, among other things, stifling bureaucracies (Zaheer, 1995; Santangelo & Meyer, 2011). Khanna et al.’s (2005) central proposition is that firms, when assessing institutional voids, rely too heavily on composite indices, such as country portfolios and formal/informal institutional overviews, and disregard essential information about the soft infrastructure in emerging countries. This is problematic, as these indices do not capture all significant institutional differences in emerging countries and, as a consequence, will not elucidate critical determinants of entry mode choice (Khanna & Palepu, 2010). Consequently, when firms formulate internationalisation strategies, they need to take a broader institutional perspective and incorporate an analysis of the product, labour and capital markets.

In consequence, institutions, defined by North (1990, p. 3) as the formal rules and informal constraints within a given society, or the “the humanly devised constraints that shape human interaction”, shall be expanded to include relevant market intermediaries for the firm in question. Institutions therefore consist of the market intermediaries in a country, in addition to the rules, norms and beliefs that, together, govern the conduct of the firm, while IT looks at how firms conduct themselves within a country’s institutional environment (Meyer & Nguyen, 2005).

**Political and Social Systems**

The institutional macro context, encompassing a country’s political and social institutions, along with its degree of openness (Khanna & Palepu, 2010), is significant for a firm’s entry mode choice for two reasons. First, it shapes the presence and quality of market intermediaries in a country (Ibid) and, second, it has a direct effect on the TC of doing business – especially in our case of a highly politicised water sector (Brouthers & Hennart, 2007). In accordance with Khanna and Palepu (2010), and in line with North’s dichotomy (1990), formal and informal institutions will be differentiated; the former measuring the political system, while IT looks at how firms conduct themselves within a country’s institutional environment (Meyer & Nguyen, 2005).

**Formal institutions** refer to economic, legal and political systems and comprise regulations, laws and property rights, among other things, and are often conceptualised through Kaufmann, Kraay and Mastruzzi’s (2013) Worldwide Governance Indicators (e.g. Slangen & Tulder, 2009; Dikova, 2012). **Informal institutions**, which concern the social norms and values of individuals and include traditions, norms and sanctions (North, 1990), can be operationalised through Hofstede’s **cultural distance** (Hofstede, 2001; Hofstede & Minkov, 2010) which, despite criticism (Brouthers, 2013; Khanna et al., 2005), is a much applied
concept in the entry mode literature to measure informal institutions and uncertainty (e.g. Slangen & Tulder, 2009; López-Duarte & Surárez, 2010).

**Market Intermediaries**

The concept of weak market intermediaries is related to the TCT notion of information asymmetries and the consequent market failures, where buyers are unable to assess the quality of information provided before a transactional exchange (Brouthers et al., 2003; Meyer, Estrin et al., 2009; Khanna & Palepu, 2010). Common in most emerging markets are relatively weak intermediaries, which inhibit the ease and cost of doing business. The *product market* facilitates the transaction between two parties and deals with the ease with which buyers and sellers can come together to conduct business (Khanna & Palepu, 2010), including the ease of buyers to search for and obtain valuable information through, among others, the usage of market research organisations. The *labour market* facilitates the relations between employer and employees. This includes the education and training of a country’s human capital, the ease of employers in finding qualified employees, employment regulation, the unionisation of employees and unemployment insurance and benefits, among other factors (Ibid). The *capital market* facilitates the efficiency and credibility of financial reporting, investor communication and accounting standards, and includes intermediaries, such as venture capitalists, banks, insurance companies and courts in cases of financial arbitration.

2.4.2. IT Determinants

In essence, when institutions are weak or the institutional distance between home and host market is large, uncertainty increases (Morschett et al., 2010), which raises the TCs of doing business (Meyer, Estrin et al., 2009; Khanna & Palepu, 2010). This has a twofold effect on entry mode choice. First, it increases the cost of setting up collaborative entry modes (Estrin et al., 2009), because, (1) information and bargaining costs related to searching for and negotiating with potential partners increase, and (2) high risk stemming from the volatility of the institutional environment increases the risk of opportunism and sub-quality production and hinders the firm in enforcing cooperative agreements (Brouthers & Brouthers, 2001). As a result, WOSs are sometimes preferred in markets with weak institutions (Meyer & Tran, 2006; Estrin et al., 2009).

However, institutional voids often necessitate access to local knowledge for investing firms in order to overcome the liability of foreignness (Zaheer, 1995; Estrin et al., 2009). Pertinent local knowledge is often
tacit in emerging markets and not attainable through the external market, and, as a result, firms might engage in JVs in order to reduce the effect of institutional voids (Meyer, Estrin et al., 2009). Holtbrügge and Baron (2013), for example, found evidence that western firms preferred a JV entry in BRIC countries, as this reduced institutional pressures, while other studies have shown that high institutional volatility increases the need for flexibility (Meyer & Tran, 2006). Cooperation with local partners facilitates access to important local stakeholders and business-related information, which consequently reduces institutional pressures, and thus increases the likelihood of improving firm performance (Holtbrügge & Baron, 2013).

Due to this lack of overall causation, there is a need to break down the institutional determinants and analyse them in isolation.

**Macro Institutions – Political and Social Institutions**

Weak political or formal institutions lead to high levels of external uncertainty, which, many scholars conclude, causes firms to enter through JVs instead of WOSs, as this reduces the liability of foreignness and bridges the institutional gap between the home and host market (Anderson & Gatignon, 1986; Duarte & Suarez, 2009; Slangen & Tulder, 2009). This is due to a number of reasons. First, local JV partners possess knowledge and skills foreign firms often lack, which are necessary to operate successfully in a market with institutional differences and flaws (Slangen & Tulder, 2009). Second, a JV requires fewer invested resources, and thus increases the flexibility of the operation and decreases exit costs. Third, JVs are less likely to be treated unfavourably by local stakeholders compared to WOSs (Khanna & Palepu, 2010). Hence, JVs in markets with weak formal institutions suffer from less external uncertainty than WOSs, and thus a preference for cooperative entry modes in emerging markets is expected (Slangen & Tulder, 2009; Holtbrügge & Baron, 2013).

Similarly, a JV instead of a WOS would reduce the effect of cultural distance on external uncertainty (Brouthers & Brouthers, 2001). The argument is that the larger the cultural distance between the home and host market, the fewer the shared norms and values; consequently, the higher the external uncertainty associated with WOSs (Ibid). Firms would, as a result, prefer JVs because local partners possess knowledge on the host country’s norms and values in addition to local stakeholders’ practices and preferences (Slangen & Tulder, 2009). Furthermore, in line with formal institutions, a JV requires fewer invested resources, and consequently, has lower exit costs than WOS; thus igniting a preference for JVs in culturally distant markets (Brouthers & Brouthers, 2001). Several studies have been conducted based on this
expected preference for JVs due to cultural distance; however, results have been ambiguous and contradictory – this conundrum has been labelled the cultural distance paradox (Slangen & Tulder, 2009; Brouthers & Brouthers, 2001).

Slangen and Tulder (2009) argue that the reason for this ambiguity can be found in the effect cultural distance has on internal uncertainty and not just on external uncertainty. The larger the cultural distance, the greater the likelihood of misunderstandings and conflicts within a subsidiary of multicultural partners, and the greater the internal uncertainty will be (Slangen & Tulder, 2009; Estrin et al., 2009). Here, WOSs, despite also being subject to internal misunderstandings and conflicts, would result in less internal uncertainty than is the case for JVs. With full ownership of a subsidiary, a MNC has more control over employment and practices, and should therefore be able to solve potential conflicts more efficiently (Slangen & Tulder, 2009). Hence, cultural distance generates two opposing pressures on the investing firm, as a WOS decreases internal uncertainty, but increases, in comparison to a JV, the external uncertainty at the same time (Ibid). Currently, the literature is unclear on the relative weight of each pressure; thus, it is not possible to assert causation in this regard (Ibid).

**Micro Institutions – Market Intermediaries**

Specific research on the state of market intermediaries and entry mode choice is not a thoroughly researched subject (Khanna et al., 2010; Santangelo & Meyer, 2011). As a result, it is not possible to rely on previous quantitative studies alone in order to pinpoint the effect of market intermediaries on entry mode choice. Consequently, this thesis will make educated guesses and rely on the empirical data in order to pinpoint these linkages. The area of focus for assessing the state of market intermediaries is inspired by the framework proposed by Khanna and Palepu (2010) and subsequently adjusted to fit the research question of this thesis.

With regard to the product market, the thesis will focus on the following:

- **Access to market knowledge.** It is expected that the more difficult it is to access reliable market information, the less likely a greenfield entry mode is to occur, as firms depend on knowledge residing within local firms to operate efficiently (Meyer & Tran, 2006; Meyer, Wright & Pruthi., 2009).
• **Consumer preference for local firms versus foreign firms.** The more biased consumers are towards products made by local firms, the less likely a greenfield investment is to take place.

• **Intellectual property rights.** The better the protection of a firm’s proprietary knowledge, the smaller the risk of opportunism, and hence an increased propensity towards a JV.

With regard to the labour market, the thesis will focus on the following:

• **The ease of access to qualified employees.** The easier firms can validate and access qualified employees, the less they are dependent on local firms, and as a result, they will be more likely they are to enter through a greenfield entry mode.

With regard to the capital market, the thesis will focus on the following:

• **Obtaining reliable financial information.** The easier it is to obtain reliable financial knowledge about local firms, the less likely a greenfield investment is to occur, because firms can confidently assess information about the financial aspects of a potential partner (Holtbrügge & Baron 2013).

• **The access to capital for foreign firms versus local firms.** If the investing firm has better access to capital through a JV or an acquisition, the propensity to enter through a greenfield mode will decrease.

2.4.3. Criticism

The main weak point of IT is its inability to explain the heterogeneity in entry mode choices of firms from the same country entering the same host market in the same industry (Ekeledo & Sivakumar, 2004; O’Cass et al., 2010). This is largely due to overlooking firm-specific internal factors as contributing to entry mode choice (O’Cass et al., 2012). In addition, the IT literature mainly focuses on political and/or social institutions, while neglecting market intermediaries, and depends on macro indices derived from secondary data to conceptualise these dimensions (Khanna & Palepu, 2010).

2.4.4. Conclusion

IT adds to the integrated framework with a distinct focus on institutions, where firms need to align their entry mode strategy to the institutional context in order to succeed in the host country (Meyer & Peng, 2005; Meyer, Estrin et al., 2009; Brouthers, 2013). Weak and incomplete institutions imply high risks,
uncertainty and TCs and, as a result, firms entering emerging markets may have difficulties in adapting to an unclear institutional context, and consequently, suffer from the liability of foreignness (Zaheer, 1995). Nonetheless, the overall effect of the individual institutional voids on entry mode is difficult to pinpoint and has been found to be varying and inconclusive in most meta-studies on the subject (Brouthers & Hennart, 2007; Canabal & White, 2008; Morschett et al., 2010).

2.5. An Integrated Theoretical Framework

As stated, this thesis adheres to scholars who consider different entry mode theories to be complementary rather than substitutes and, as such, adheres to the proposals of a comprehensive explanatory model rooted in multiple theoretical perspectives (Brouthers, 2002; Peng et al., 2008; Hennart, 2009; Morschett et al., 2010). The central theoretical proposition of the integrated framework is consequently that firms’ entry mode choices are contingent on firms’ resources, in addition to and interdependent with host market institutions and market attractiveness – with a distinct focus on market intermediaries – and that the basis of TCT is capable of effectively incorporating these views (Hennart, 2012).

Meyer, Wright and Pruthi’s (2009, p. 558) proposition that “Knowledge is the main basis for competitive advantages in many technology oriented sectors, and is thus a central motive for internationalization” is at the root of the framework. Consequently, when dealing with the internationalisation of Danish water firms, which are technology-intensive (DAMVAD, 2012), firm resources are at the foundation of their internationalisation efforts, as, without these resources, firms would not internationalise (Santangelo & Meyer, 2011). Likewise, the thesis adheres to the RBV focus on value creation as the objective of entry mode choice rather than cost minimisation as advocated in the classical TCT literature (Meyer, Wright & Pruthi, 2009). Thus, the thesis acknowledges that long-term considerations and market dynamics could lead to entry mode choices, which generate higher short-term costs, but are based on strategies that are expected to provide superior performance in the long-run (Holtbrügge & Baron, 2013). In the case of entering an emerging market, this entails taking into consideration factors such as first-mover advantage, market maturity and expected normalisation of institutions over time (Khanna & Palepu, 2010; Ashan & Musteen, 2011).

Collectively, derived from the theoretical propositions developed in the literature review, the thesis proposes that a firm’s entry mode choice is contingent on the factors depicted in the following theoretical framework:
Thus, the starting point for a firm’s entry mode choice is its internal resources, which constitute a firm’s size, experience and knowledge intensity in this thesis. These internal factors, in conjunction with the institutional environment and the market attractiveness, determine the firm’s need for control, its tolerance for risk and its dependence on local knowledge, which will ultimately result in a given entry mode. It is important to point out that the aim of the framework is not to prove or disprove relationships between variables, as is the case in quantitative research. Rather, in line with qualitative research, the framework will guide the empirical research with the objective of uncovering qualitative explanations as to how the proposed entry determinants affect entry mode choice – especially the effect and interdependence on market intermediaries, as these compose the academic novelty and research gap.

2.5.1. Theoretical Propositions

Based on the literature review, the following relations between the determinants and entry mode choice are expected:
Thus, market attractiveness and the size and experience of the firm are positively related to establishing a WOS, as well as knowledge intensity, due to heightened opportunistic risk and brand and quality deterioration (Ekeledo & Sivakumar, 2004). The need for resource augmentation, on the other hand, is associated with a cooperative entry mode, as the investing firm relies on the tacit knowledge that local firms potentially possess (Meyer, Wright & Pruthi, 2009). When it comes to institutions and the effect on entry mode choice, the relationship is less clear. The literature seems to suggest a JV in markets with weak formal institutions (Holtbrügge & Baron, 2013), but it is inconclusive with regard to the effect of informal institutions (Slangen & Tulder, 2009). Through a brief review of market intermediaries, it seems that there are a number of opposing effects on entry mode – also within each of the three intermediaries. In the case of the product market, for example, a lack of access would point towards a JV, while weak IPR rights could spur a WOS mode of entry. Consequently, the effect will not be proposed here, but rather analysed further in the empirical section.

Based on the literature review, and in line with focusing on equity modes of entry and delimitating these into greenfield, acquisition and JV investments, entry modes are expected to differ as depicted in table 2.

**Table 2: Entry mode differences (adapted from Lasserre, 2008)**

<table>
<thead>
<tr>
<th>Factor</th>
<th>Greenfield</th>
<th>WOS</th>
<th>Acquisition</th>
<th>JV</th>
</tr>
</thead>
<tbody>
<tr>
<td>Upfront investment – financial and managerial</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Control</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td>Low</td>
</tr>
<tr>
<td>Opportunism, brand/quality deterioration</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Risk from formal institutions</td>
<td>High</td>
<td>Medium</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Risk from informal institutions</td>
<td>Low</td>
<td>High</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Potential financial return</td>
<td>High</td>
<td>High</td>
<td>Medium</td>
<td></td>
</tr>
<tr>
<td>Access to local knowledge</td>
<td>Low</td>
<td>Medium</td>
<td>High</td>
<td></td>
</tr>
</tbody>
</table>
3. METHODOLOGY

The purpose of the methodology chapter is to clearly explain and justify the research design of the thesis and the process by which the research question is answered. In line with the so-called Onion Model by Saunders, Lewis and Thornhill (2009), the chapter starts by presenting the research philosophy, approach and strategy. Subsequently, the choice of data is argued for, followed by an explanation of the data collection and analysis procedures. The chapter’s concluding section evaluates the chosen research methodology. The structure of the chapter and the methodological selections are depicted in the figure below.

*Figure 5: Methodological adaptations (adapted from Saunders et al., 2009)*

3.1. Research Philosophy

The research philosophy concerns the development and nature of knowledge (Saunders et al., 2009). The thesis most closely adheres to an *interpretivist research philosophy*. However, I acknowledge that the research philosophy applied in this thesis does not adhere neatly to one single philosophical domain. In accordance with positivism, I recognise an accessible reality that we can observe, analyse and interpret, and that this research aims to increase the explanatory power of entry mode choice for Danish firms in the Indian water sector (Abbott, 2004). Corresponding to interpretivism, on the other hand, I acknowledge the
differences in meanings and interpretations of individuals in their role as social actors and hence the subjectivity and context-dependence of research conducted in the social world (Saunders et al., 2009) – especially as the empirical data gathered for this thesis are based on the perception of the interviewees on diffused social concepts such as institutions and firm advantages. Consequently, one must “realize that there can be many layers to the reality (...) and access to the one ‘Real World’ is highly complicated” (Moses & Knutsen, 2007, p. 13), and we interpret concepts and roles in accordance with “the meaning we give to these roles” (Saunders et al., 2009, p. 116). Furthermore, the uniqueness and complexity of the research area is “too complex to lend itself to theorizing by definite laws” (Ibid, p. 115), and, instead, necessitates an in-depth analysis, where detailed observation is needed in order to generate knowledge that is subsequently “subject to constant review and revision” (Malhotra & Birks, 2007, p. 161).

This implies that I, as the researcher, should strive to understand the meanings given to the nebulous social constructs, such as culture and institutions by the interviewees, while being aware that my interpretation of the collected data is also contingent on a set of peculiar meanings and interpretations (Saunders et al., 2009).

3.2. Research Approach and Strategy

Saunders et al. (2009) differentiate between two research approaches, inductive and deductive. An inductive approach forms understandings and new theories on the basis of empirical evidence, while a deductive approach focuses on testing the validity of existing theories on the basis of gathered empirical data.

This thesis utilises an abductive, or hybrid, research approach, where both deductive and inductive approaches are applied (Saunders et al., 2009; Carey, 2013). Initially, a deductive approach is applied, where, based on the literature review, the explanatory, theoretical framework and the interview guide are constructed. This is in line with Yin’s (2009) recommendation of increasing the quality of the research by relying on previous research on the subject, which, in the case of foreign entry mode choice, is extensive. Nonetheless, given the novelty of incorporating Khanna’s notion of market intermediaries and the case of Danish firms in the Indian water sector – an area not previously studied – an inductive approach is thereby applied. Consequently, the empirical findings from the interviews are matched against the constructed framework and, if applicable, theoretical alterations are suggested. Thus, the aim is to uncover, based on the empirical data, how practitioners in the field determine entry mode choice – i.e. exploratory research,
which cannot be fully described by previous research and where the aim is to generate new discoveries or theories (Saunders et al., 2009).

As a result, the benefit of an abductive approach is therefore a broader understanding of the interaction between data and theory and the opening up for continual adjustments of the theoretical framework in accordance with the empirical findings (Carey, 2013). This is especially applicable with the interpretative philosophy and research variables in this thesis, which are heavily dependent on social constructs, and thus difficult to generalise through a purely deductive approach (Saunders et al., 2009).

Given that the objective of the thesis is to explore, discover and explain various influences on entry mode and not to test a hypothesis, this thesis takes the shape of a qualitative, multiple case study, involving “an empirical investigation of a particular contemporary phenomenon within its real life context using multiple sources of evidence” (Robson, 2002, p. 178 cited in Saunders et al. 2009). Qualitative research on the topic of entry mode determinants from an institutional perspective is even more applicable, as the aim is to uncover managers’ perceptual views of the environment, which directly constitute the decision-making process, and not to test indices such as Hofstede or global governance indicators, of which managers may or may not be aware (Santangelo & Meyer, 2011; Brouthers, 2013). If, on the other hand, the thesis aimed at measuring outcomes, such as entry mode performance based on institutional distance, then quantitative research founded on reliable secondary sources would be more applicable (Saunders et al., 2009; Brouthers, 2013). Yin (2009) states that a case study is applicable when the study (1) aims to study why and how questions, (2) entails little control over behavioural events and (3) focuses on contemporary phenomena. By examining how the institutional environment of an emerging economy influences entry mode choices, the thesis fulfils the first and third criteria listed above as well as the second, as the thesis does not possess control over any behaviour encountered in the study. Thus, the choice of a case study conforms to Yin’s criteria and should be preferable, as it allows the researcher to gain a deep understanding of a complex social phenomenon (Ibid).

Yin furthermore distinguishes between embedded and holistic case studies, where an embedded case study may use more than one unit of analysis and where different levels or sources of data are collected (Ibid). As the unit of analysis of this thesis is Danish water firms entering the Indian water market, the case firms are nested or embedded within this greater context, where industry experts serve as an equally important sub-unit of investigation for answering the research question. Consequently, the thesis takes the
form of an embedded case study, where the case firms and the industry experts constitute the sub-units of the overall unit of analysis of the thesis.

A multiple case study was chosen rather than a single case study to increase the robustness of the study and improve the interpretive aspect of the research, and was determined to be preferable, as the aim was to “challenge an existing theory and also provide a source of new research questions” (Saunders et al., 2009, p. 147; Yin, 2009). Likewise, given that the aim of the research is a contemporary or “snapshot” investigation of how firms decide on entry mode and not a study of change and development in this regard, the thesis also uses a cross-sectional approach (Saunders et al., 2009), following Dunning and Lundan’s (2010) suggestion that institutional environments change over time, and hence the aim is to capture time-sensitive aspects that can impact firm actions.

**Description and Justification of the Research Context**

Emerging markets – characterised as economically restricted high-growth economies with the presence of poorly functioning or even absent specialised intermediaries (Khanna & Palepu, 2010) – are the growth engines for western firms today (Hennart, 2012). These economies offer unsaturated demand, expanding middle classes and risk diversification, as they tend to perform somewhat independently from developed markets, as evidenced under the last financial crisis (Lagace, 2010). Consequently, Outward Foreign Direct Investment (OFDI) from western economies into emerging markets has increased threefold in the period from 2000 to 2010 and now constitutes 20.4 % of global OFDI, with China and India being the biggest recipients of these investments (Holtbrügge & Baron, 2013). A similar growth pattern is evident in OFDI from Denmark into India, as depicted in the figure below.
Danish OFDI to India has, over a period of nine years, increased fivefold in absolute numbers, while doubling as a percentage of total Danish OFDI. This corresponds to India’s economic growth rate, which has averaged approximately 6 % since the early 1990s and has a GDP per capita growth substantially higher than the global average – despite high population growth (Kuijs, 2012). Furthermore, India’s economy is, due to boasting one of the youngest populations globally, expected to continue this growth rate and become the second largest economy in the world by 2050 and compose one of the largest middle classes in the world (Ibid). Nonetheless, the Indian economy is, overall, relatively restrictive towards inwards FDI (OECD, 2013) and, in conjunction with geographical distance and institutional barriers, it has been shown that Danish firms are proportionally underinvesting in emerging markets – particularly in India (UM, 2011; Hansen, 2014).

As will be further discussed in chapter 5, the Danish water sector is believed to possess the resources necessary to exploit the market potential of India. However, the sector is poorly defined (DAMVAD, 2012) and qualitative case work on its internationalisation practices in emerging markets is close to non-existent (MIDT, 2011). Likewise, to the knowledge of the author, relatively few studies have been conducted on Danish FDI into emerging markets – in particular on entry mode choice (Hansen, Pedersen & Pedersen, 2006). Consequently, this thesis could shed novel and practical insights on how Danish firms manoeuvre a highly politicised sector in an emerging market through their choice of entry mode.
Similarly, there exist few, if any, theoretical entry mode perspectives tailored to the idiosyncrasies of emerging economies (Brouthers & Hennart, 2007; Meyer, Estrin et al., 2009; Ashan & Musteen, 2011; Hennart, 2012). As a result, there is a need to review and synthesize the vast body of entry mode literature and focus explicitly on the effects of emerging markets’ institutions on entry mode choice (Ashan & Musteen, 2011). Furthermore, through an explicit focus on market intermediaries, i.e. the effect of the lack of intermediaries on the product, labour, and capital markets on entry mode choice (Khanna & Palepu, 2010), this thesis could potentially enhance the explanatory power of current entry mode perspectives. As a result, the research context of the thesis could produce both practical and academic novel knowledge.

3.3. Data Collection

Research based on case studies opens up a variety of data collection methods, which could prove beneficial, as this enables the author to adjust the data collection methods to the research question at hand (Saunders et al., 2009). The empirical section of the thesis is predominantly based on primary data through a number of interviews. Nonetheless, the thesis utilises several sources of data, both primary and secondary, through, among other sources, interviews, academic literature, annual reports, company web pages and industry reports. This, according to Yin (2009), is an advantage, as the use of several sources of data is preferable as it enables triangulation, which is essential in order to validate and cross-check findings.

At the outset of the work of the thesis, secondary sources of data were reviewed in order to obtain a preliminary understanding of applicable theories and pinpoint potential research gaps, as well as identify opportunities for practical contribution. Subsequently, Jesper Dannisøe, the head of the Danish Water Forum (DFW) and senior project manager at DHI, was contacted and the preliminary research was discussed with regard to potential practical relevance. As a main goal of the research design was to analyse how market intermediaries within the Indian water sector affected entry mode choice for Danish firms, it was a prerequisite that the firms had a physical presence in India and operated within the water sector. This effectively narrowed the scope of relevant firms and Jesper proposed contacting four firms, Grundfos, Danfoss, AVK and DHI, while Dansk Industri (DI), DWF and the Danish Trade Council in India could function as sector experts. I sent the firms and sector experts an email, inquiring into their interest in an interview and all except Danfoss responded positively. Thus, I ended up with AVK, Grundfos and DHI as case firms—all major players within the global water sector sharing similar traits, namely: +3000 employees, a majority of revenues in foreign markets and a physical presence in India.
Before conducting the interviews, and thus undergoing the core analysis of the paper, a thorough literature review was conducted in order to construct the theoretical framework and develop the interview guide. This part of the thesis was carried out through an inductive research method (Saunders et al., 2009). The sources used were existing literature on entry modes, internationalisation in emerging markets and institutional theory. Furthermore, non-academic literature on the case firms and internationalisation of Danish firms was also reviewed. This part constituted the application of secondary data in the thesis.

**Selection of Case Firm Intervieewees and Industry Experts**

In total, nine interviews were conducted within a period of around two month in the period of November and December 2014, which should be adequate in shedding pertinent light on the research question and providing findings capable of analytical generalisation (Saunders et al., 2009; Yin, 2009). Based on personal contacts and contact information from Jesper Dannisøe, initial contact was made with the potential interviewees, where the research topic and the intended objective of the interview were presented. Based on the background and knowledge of the subject, a number of the interviewees agreed to the interview, while others forwarded the interview request to more suitable employees within their organisation. The interviewees are presented in the table below.
Table 3: List of interviewees

<table>
<thead>
<tr>
<th>Interviewee</th>
<th>Organisation</th>
<th>Position</th>
<th>Background</th>
</tr>
</thead>
<tbody>
<tr>
<td>Andreas Geisinger</td>
<td>AKV Valves India Pvt Ltd</td>
<td>Managing Director</td>
<td>Seven years as head of three foreign subsidiaries in India</td>
</tr>
<tr>
<td>Anshul Jain</td>
<td>Royal Danish Embassy in New Delhi – Trade Council</td>
<td>Deputy Head of Trade. Sector Expert, Water</td>
<td>Extensive experience with Danish investments in India – particularly within water</td>
</tr>
<tr>
<td>Hans G. Enggrob</td>
<td>DHI – New Business</td>
<td>Vice President</td>
<td>Technical and Managing Director of DHI India from 2011 to 2013</td>
</tr>
<tr>
<td>Jesper Goodley</td>
<td>DHI Hørsholm - Danish Water Forum – Innovation &amp; Export</td>
<td>Senior Project Manager - Project Director</td>
<td>Promotes the Danish water sector internationally – extensive experience with India</td>
</tr>
<tr>
<td>Dannisøe (Two interviews)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Keld Fensten Madsen</td>
<td>Grundfos Management, Strategy &amp; Intelligence – Business Development</td>
<td>Director</td>
<td>30 years with Grundfos – 20 years of experience with India. Director of Grundfos India</td>
</tr>
<tr>
<td>Kunal Singla</td>
<td>DIBD India, Danish Industry</td>
<td>Managing Director</td>
<td>Managing Director of DIBD India since 2012</td>
</tr>
<tr>
<td>Lars Christiansen</td>
<td>Ministry of Foreign Affairs of Denmark – the Trade Council</td>
<td>Sector consultant, Creative Industries</td>
<td>Previously Head of Trade at the Danish Embassy in India – focused on the water sector.</td>
</tr>
<tr>
<td>Ranganath</td>
<td>Grundfos India</td>
<td>General Manager</td>
<td>Been with Grundfos India since its establishment in 1998 and is instrumental in the management of the subsidiary</td>
</tr>
</tbody>
</table>

Primary Data – Interviews

Subject to minor individual alterations, an interview guide was developed prior to the interviews (see Appendix 1). Likewise, prior to the interviews, a short description of the research subject and the expected role of the interview were provided through email. This allowed the interviewee to get an overview of the topic and to mentally recollect the relevant information. It was stressed, nonetheless, that the interviewee was not expected to prepare for the interview or to provide answers to all the questions – this was done with respect to the time constraints of the interviewees as well as the consolidation of the open-ended and semi-structured approach of the interviews.

With the consent of the interviewees, all interviews were recorded (with the exception of the first of two interviews with Jesper Dannisøe) and subsequently transcribed according to the language used in the interview. Six of the interviews were conducted in Danish and three in English and the length of interviews
was, on average, 40-45 minutes each. Given the potential sensitivity of the subject, the requirements of some of the interviewees and the desire to let the interviewees speak freely, anonymity, beyond an initial presentation, was promised. As a result, interviewees from the case firms will be labelled CF1,1-2; CF2,1-2 and CF3,1-2, where Andreas Geisinger, being the sole interviewee from AVK, will figure randomly as both interviewee 1 and 2 in the case firm number specified to AVK. The industry experts will be labelled IE1-3.

Before starting the interviews, I explicitly explained the subject of the thesis and my perceived role of them in the thesis and we went through the keywords of the thesis, including entry modes, institutions and market intermediaries. All interviews were open-ended and semi-structured, as the goal was to encourage the interviewees to emphasise aspects they considered important with regard to entry modes and institutional challenges in India and not to cross-check the theoretical framework (Yin, 2009). On the basis of the preliminary research question and the theoretical framework, the interview guide consisted of three overall components, aimed at operationalising the variables of interest; namely:

1. What factors the interviewees perceived to be relevant to take into consideration when internationalising in India and how this affected entry mode choice.
2. How they perceived the state of market attractiveness and institutional voids in India.
3. How the state of the firm’s resources, in addition to market attractiveness and the institutional context in India, affected entry mode choice for the firms in question.

The questions and the method of delivering the questions were put forward with the aim of avoiding an unbiased response, and thereby encouraging the interviewee to emphasise aspects he (all interviewees were male) considered to be most important. After the initial answer, the interviewer directed the follow-up questions toward the aim of the interview; namely entry mode determinants. As will be elaborated on in chapter 5, this method of questioning facilitated the interviewer in capturing the subtle, unidentified determinants influencing entry mode choice. Prior to all interviews, company web pages, annual reports and news articles about the firms were reviewed. This enabled the interviewer to more effectively discuss and respond to the statements of the interviewees and ask follow-up questions, while maintaining focus on the core of the interview.

3.4. Data Analysis and Discussion

After concluding the interviews, the analysis, and subsequently the discussion can commence. Yin (2009), in this regard, states that this aspect of case studies is one of the least developed and most difficult to
undertake. Inspired by Yin (Ibid), this thesis utilises the general strategy of developing a theoretical framework and a number of propositions, which subsequently guides the application of the analysis and the theoretical and empirical comparison, and the assessment in the discussion section.

Coding denotes the classification of data with the aim of facilitating comparison between items in the same category as well as between categories (Yin, 2011). This thesis loosely follows Corbin and Strauss’s (2008) coding procedure; however, in line with Yin (2011, p. 187) the method is also based on a “peculiar disassembling process because there is no fixed routine” First, all interviews were transcribed after each interview. Second, based on the interview guide, a preliminary coding scheme was followed, where the empirical data were categorised according to the main theoretical concepts; namely, firm resources, institutions, market attractiveness and the subcategories of each of these; i.e. size, experience, augmentation needs, formal institutions and so on. Focus was on an open coding of the data, as the aim was to avoid a dependence on the proposed theoretical framework and rather, in line with the inductive approach, to be open to new theoretical developments. Third, the coding categorisation was subject to change in response to new insights generated from the data analysis (Corbin & Strauss, 2008). In the case of market intermediaries, for example, no underlying theoretical assumptions were initially present and the categorisations of these were subsequently adjusted according to the statements of the interviewees. The employed coding scheme is found in appendix 2.

Based on the transcription and coding categorisation of the interviews, and in order to increase the understanding and the generalisability of the data, a cross-case analysis was conducted, where the aggregated findings, both similarities and differences, across all the cases and sector experts were highlighted (Yin, 2009). On the basis of the analysis and the theoretical framework, the discussion section addresses and discusses the theoretical framework in light of the empirical findings. Here, Yin’s (Ibid) pattern-matching was utilised, where empirically-based patterns are compared with predicted ones – in our case, the theoretical framework/propositions. The discussion, due to the abductive approach utilised, is an ongoing correlation between data and theory (Saunders et al., 2009). Finally, this leads to a conclusion on the findings of the thesis and the implications for theory, managers and policy-makers in this regard.

### 3.5. Methodological Quality

The quality of any empirical research can, according to Yin (2009), be evaluated based on four criteria: construct validity, internal validity, external validity and reliability. The following section will evaluate the methodological quality employed in this thesis with respect to the four criteria.
Construct and Internal Validity

Construct validity, defined as “identifying correct operational measures for the concepts being studied” (Yin, 2009, p. 40), is of particular importance when dealing with the operationalisation of social constructs such as institutions (Hotho & Pedersen, 2012a). Consequently, the emphasis was on developing a clear, sound and coherent theoretical construction of all concepts in the literature review and a focus on clarifying these constructs and their operationalisation to the interviewees. Internal validity in case studies is not directly linked to establishing a credible causal relationship, but rather to establishing a phenomenon in a credible manner (Yin, 2009). Merriam (2009) states six basic strategies to ensure internal validity: triangulation, member checks, long-term observation, peer examination, participatory or collaborative modes of research and researcher’s bias. A number of these strategies are applicable in enhancing construct validity as well; consequently, these will be reviewed collectively below.

First, triangulation was assured by coordinating a number of sources of data collection; including a thorough literature review, where previous, pertinent studies were addressed, and the inclusion of industry experts in addition to the case firms and secondary data. This should limit the potential pitfall of construct validity in the thesis due to an over-reliance on one representative for each firm and organisation, which could skew the objective representation due to personal idiosyncrasies and inherent biases (Yin, 2009). Member-checks were carried out by sending English interview summaries to the interviewees in order to see if their perceptions matched those of the author. This should reduce any potential linguistic misinterpretations and interpretative misunderstandings, and thus increase the construct validity, as the interviewees were able to correct any misunderstandings, clarify unclear sections and reword quotes ascribed to them in the thesis (Ibid). Consequently, as the interviewees had seen and accepted the author’s translation of their statements when directly quoted, the author has not stated when a quote is translated. Peer examination was accomplished by discussing interim results and methodology with fellow students and the thesis supervisor. Participatory or collaborative modes of research were utilised, as several of the interviewees were involved in an early phase of the research process and given the opportunity to provide feedback and suggestions; e.g., DWF was involved in the formation of the research question and the selection of firm cases. The thesis has, likewise, strived to make the researcher’s bias, or his assumptions, world view and theoretical orientation, accessible in the thesis. Due to the time limitation of the thesis, a long-term observation was not applicable.

A significant contribution to the internal validity of the thesis is the broad approach it employs, where determinants spanning industry, firm and institutional aspects are incorporated into the theoretical
framework. Hence, in accordance with Yin (Ibid), by including and addressing rival explanations instead of a sole focus – such as institutions – the internal validity of the thesis is strengthened. Pattern matching, likewise advocated by Yin (Ibid) to strengthen validity, is also a central facet of the thesis, as the empirical data was compared and assessed in accordance with the predictions of the theoretical framework. In addition, efforts have been made to focus on the relationships described by the interviewees and not on the literature review and the corresponding theoretical framework, which could otherwise dominate the author’s interpretation of the studied phenomena (Ibid).

Ultimately, strengthening the validity of a given study is a trade-off between informational access, the scope and scale of the thesis and the required validity. Given the thesis’s collection of data, the scope and constraints of the thesis and the methodological precautions taken, the author considers the validity to be satisfactory.

*External Validity and Reliability*

*External validity* deals with the extent of generalisability of the findings (Yin, 2009). As a multiple case study does not allow for statistical generalisation, focus will be on *analytical generalisation* or the utilisation of the data for theory development (Saunders et al., 2009). As such, the case firms were chosen according to literal replication logic, where each case was selected carefully to predict similar results according to theoretical propositions and thus potentially provide support for the proposed theory (Yin, 2009).

Throughout the thesis, focus has been on clear documentation and clarification of every step and aspect of the thesis development. Accordingly, transcribed interviews, the interview guide and other relevant documents are included in the appendix. All central concepts have been properly defined, problematic areas highlighted and theoretical predictions are cited by past research on the subject – both supportive and contradictive. Likewise, the author has aimed to reduce researcher and interviewee bias and errors, while a case study database, comprising all collected data, was utilised for the thesis, as advocated by Yin (Ibid).

Therefore, the author believes that this should allow readers to gain unhindered access and understanding of the study and the proposed/potential implications for theory – thus providing for satisfactory reliability (Ibid). In addition, as interviews with multiple firms and industry experts were conducted, and many of the determinants are applicable across sectors, the results could be relevant – with limitations – to both theory development and Danish firms contemplating entry into a politicised sector in India.
4. BACKGROUND

Based on secondary data only, this chapter is divided into two sections. First, the chapter aims at giving a brief, but clear, overview of the Indian water sector and the competencies held by Danish firms within it. This should provide the reader with pertinent information to grasp the unit of analysis in the thesis, while additionally strengthening the research by triangulating the primary data (Yin, 2009). Second, an overview of the institutional landscape in India is presented. In addition to triangulating the primary data on institutions, the purpose is to assess Khanna and Palepu’s (2010) statement that macro indices are incapable of identifying vital institutional differences within emerging markets. As such, in addition to reviewing the institutional differences between India and Denmark, China has also been included, and will be subsequently compared to the findings of the interviews in the discussion chapter. Note that the focus of the thesis is on the managerial perceptions of these determinants. Hence, the thesis will briefly analyse each component in this section and then review these point more thoroughly in the analysis of the primary data.

4.1. Danish Water Competencies

Fuelled by one of the world’s strictest water regulations, Denmark has, since the 1970s, developed one of the most technologically advanced and competitive water sectors in the world (SF, 2011). As such, Denmark, as a European water hub and an internationally renowned provider of water solutions, is forecast to hold immense export potential (SF, 2011; MIDT, 2011; DAMVAD, 2012).

According to DAMVAD, the Danish water sector, spanning operation and expertise over all segments of the water industry, consists of approximately 300 firms, most of them categorised as Small and Medium Sized Enterprises (SME), with a few global MNCs such as Danfoss and Grundfos (MIDT, 2011; DAMVAD, 2012). The industry employs approximately 35.000 people and has a turnover of approximately DKK 30 billion, of which exports account for approximately 50 % (Danva, 2015). The water sector is characterised by intense technology and knowledge, residing in both the products and in the human capital of the companies, and is estimated to be one of the largest Danish environmental technology groups (MIDT, 2011). This is reflected in the comparatively high number of patent applications, as the Danish water sector globally ranks second in patent applications based on a per-person measure (DAMVAD, 2012). As a result, the competitive advantages are rooted in intangible assets, namely knowledge and technology, which are exposed to
substantial risk in the form of, inter alia, high transaction cost and opportunistic behaviour if implemented through external markets.

Despite its growth potential, the Danish share of total water exports compared to its European counterparts has been declining in recent years – especially in large emerging markets such as the BRIC countries, due to cultural and institutional distance (MIDT, 2011; Hansen, 2014). This is problematic, as these markets constitute the bulk of global growth (DAMVAD, 2012). Thus, it seems that Danish firms hold back, as they are not sure how to “play the game, when the rules of the game are not completely known and changing” (Peng et al., 2008, p. 930).

4.2. The Indian Water Sector

India encompasses 16 % of the world’s population, but holds only 4 % of the world’s total water resources (Trade Council India, 2014). Already at a critical stage, insufficient water resources are exacerbated by a rapidly growing demand, which is projected to overtake the availability of water throughout most of the country within the next decade. In short, this means that India is facing a desperate situation of water shortage as the per capita availability of water is diminishing quickly (Ibid).

Consequently, since the 1980s, the Indian government has demonstrated an increased commitment to improve the water and sanitation sector in the country. The government has opened the industry up for privatisation, abandoned all legislative barriers on foreign equity in most aspects of the water and sanitation sector and allocated 50 % of federal and state water budgets to Private Public Partnerships (PPP) and private businesses (12th Five Year Plan, 2013). The liberalisation has paved the way for easier access for foreign firms into a market estimated to be worth USD 12 billion annually, which has been growing at an annual rate of 15-20 % over the last decade and is expected to follow a similar growth progression in the near future (UN, 2011). As a result, the water sector in India is relatively open compared to other sectors in the country, and hence a macro indicator, such as the OECD’s FDI Regulative Restrictiveness Index (2013), is inadequate in determining the state of openness for foreign firms within the water sector in India. Nonetheless, the Indian water sector possesses a number of challenges and institutional voids, which will be elaborated below.
4.3. Institutions

**Formal Institutions**

Based on the World Bank’s governance indicators (Kaufmann et al., 2013), a widely applied benchmark for the state of a country’s formal institutions, India scores substantially lower in all dimensions compared to Denmark. It could therefore be inferred that India possesses weak or ineffective formal institutions – due to, inter alia, corruption, bureaucracy and political risk (Trade Council India, 2014). In line with Khanna and Palepu’s (2010) suggestion, China, aside from voice and accountability, is markedly similar to India in most accounts. The composition of the governance indicators and the definition of each dimension are found in appendix 3.

*Figure 7: Governance Indicators (own calculations based on Kaufmann et al., 2013)*

![Governance Indicators](image)

**Informal Institutions**

Despite being heavily criticised due to, among other things, a simplification of cultural variables and an inability to assert an effect of its dimensions on entry mode choice (Javidan et al., 2006; López-Duarte & Suárez, 2010), Hofstede’s cultural distance (Hofstede & Minkov, 2010) is still a much-applied concept within institutional theory and the entry mode literature to measure informal institutions (Tihanyi, Griffith &
Russell, 2005; Javidan et al., 2006). Figure 8 depicts the differences between Denmark, India and China in this regard. The composition of Hofstede’s cultural distance and the definition of each dimension are found in appendix 4.

*Figure 8: Hofstede’s cultural distance (own calculations based on Hofstede & Minkov, 2010)*

As in the case of formal institutions, there exist significant differences between Denmark and India across most cultural distance dimensions. This is reflected in India’s high scores on power distance, among other things, which means that Indian employees want clear directions and show less initiative that their Danish counterparts. Questioning or criticising superiors is, as a result, uncommon. Indian society is masculine, which is underlined by a norm of Indians showing visual symbols of success at the workplaces and striving for recognition. India has a relatively pragmatic, long-term oriented culture, which is underlined by the religious concept of karma, where time takes a lower rank compared to most western societies. Consequently, unpunctuality and changing plans are more tolerated. Lastly, India scores comparatively low on indulgence, which, inter alia, means Indians are more constrained by social norms than those in countries scoring higher on the indulgence dimension (Hofstede & Minkov, 2010).

India and China are comparatively closer to each other than either is to Denmark, despite the similarity being less prominent compared to the governance indicators. The only significant differences are found within individualism and pragmatism, where China is less individualistic and more long-term oriented. Thus,
according to both the governance indicators and the cultural distance dimensions, India and China do not exhibit significant differences and, as a result, the effect of formal and informal institutions on entry mode choice should be similar within these two countries.

Furthermore, there are a number of cultural differences not directly reflected in the Hofstede indicators, which could increase the cultural distance between Denmark and India. One aspect is religion and its effect on most aspects of society in India (Harriss-White, 2004). A relatively large number of Indians are religiously active and adhere to a number of different religions and faiths. This is reflected in the workplace, where the caste system still unofficially divides the workforce, and where religion has created varying norms and values markedly different from those practiced in western companies (Ibid).

**Market Intermediaries**

The Indian water sector, an already politicised and bureaucratised sector, is mostly controlled and regulated by individual states (OSEC, 2010). This effectively means that firms within the sector need to abide by procedures that vary extensively based on regulations across 29 states, where different business practices, regulations, infrastructure, opportunities, languages and cultures apply. This creates a market with an absence of clear processing procedures and where the business environment could prove volatile and inconsistent due to political instability, governmental inefficiency and the presence of corruption within each state (UN, 2011). This state of weak institutions and lack of regulative uniformity impedes the ease of understanding and obtaining unbiased information on projects, tenders and potential suppliers within the Indian water product market (Trade Council India, 2014). Likewise, public tenders for water projects often appear to be non-transparent and leave foreign firms with small chances of winning contracts (OSEC, 2010).

Furthermore, the water sector in India is price sensitive, which impacts and lessens foreign firms’ profit margins, as local competition is plentiful and, on average, 30 % cheaper compared to foreign competitors (Ibid). Prevailing case law in India on transfer of technology tends to favour the Indian litigant over the foreign one (Armour & Lele, 2009), which, taken together with the average duration of litigation and the overall inefficiencies of the courts (Khanna & Palepu, 2010), could lead to costly transactions if foreign firms need to utilize the judicial system to settle disagreements. As a result, a prerequisite for entering the market is thorough groundwork with regard to market insights and pertinent pipelines, as the bureaucracy within the water sector is cumbersome and networks and relationships are central to success (OSEC, 2010; Trade Council India, 2014).
The Indian labour market is among the cheapest in the world. In addition, most of the educated workforce speaks adequate English and India possesses top-tier engineering and business universities, whose graduates are well-verified and qualified many disciplines (Teamlease, 2005; Khanna & Palepu, 2010). The trade union movement is active and volatile, although it is becoming less important – unorganised employment comprises the bulk of the labour force (Khanna & Palepu. 2010). This, combined with a plentiful supply of workers and lax employment regulation, gives managers ample flexibility to personalise employee contracts and working conditions. However, economic growth might erode the advantage of cheap and unorganised labour in the long-run (Farrell, Kaka & Sturze, 2005).

In contrast to most emerging markets, the banking system in India is well developed, where equity is available to local and foreign entities (Khanna & Palepu, 2010). Likewise, financial reporting, inspired by British common-law, functions well. Bankruptcy processes exist, but are inefficient as it is difficult to sell off or shut down “sick” enterprises. However, taken as a whole, the Indian financial market is considered one of the best functioning among the financial markets of emerging economies (Ibid).

5. CROSS-CASE ANALYSIS

This section presents the collected primary data in a non-interpretative manner, where the interviews are summarised according to the pertinence to the research question and the theoretical framework. In accordance with Yin (2009), an analysis across all firm and expert interviews will be conducted in order to identify similarities and differences regarding the view of the interviewees on entry mode determinants. By identifying these patterns, the aim is to provide insights that enable analytical generalisations of the case study results, which will be matched against the theoretical framework in the discussion section. The empirical data consist of eight interviews – five interviews with the case firms and three with industry experts. Hence, the cross-case analysis seeks to establish a chain of evidence for the relationships studied on the basis of the theoretical framework and answer sub-questions two and three, namely:

- What institutional voids exist in India for the firms in question?
- How do the identified voids affect the applicability of transferring firm resources?

The chapter will, in addition to a brief overview on the interviewees’ stances on India and their views on entry modes in general, categorise the interviewees’ statements on entry modes into sections
corresponding to the theoretical propositions generated by the literature review; namely, market attractiveness, firm resources and institutional voids.

5.1. Indian Heterogeneity and Chosen Entry Modes

"India is the size of Western Europe and has the population of the whole Western World – India is not a homogeneous entity, and should not be treated as such" (CF1,2)

The heterogeneity of India, with regard to all aspects of society, is beyond complex (IE2). Despite being a politically unified country, India can almost be seen as 29 independent countries with varying cultures, traditions, governance structures, degrees of corruption and water challenges – including state differences in power outages, fluctuating water quantities due to monsoon rain and differences in water pricing (CF1,2; IE1; CF3,2). Consequently, when asked about the state of voids and how to manage these, the interviewees consistently pointed towards the importance of locating the subsidiary according to the needs of the investing firm – including market attractiveness (IE1), favourable labour conditions (CF1,1; IE2), less corruption (CF2,1; IE1), government efficiency (IE3), political stability (CF1,1) and basic infrastructure (IE1). As a result, a thorough pre-entry locational analysis, where the states are individually scrutinised and ranked according to the fit and needs of the subsidiary, should be at the root of any entry mode choice in India (IE3; CF3,1).

Entry Modes

"Most of the 115 Danish firms in India are present through a greenfield WOS" (IE1)

All three case firms are present in India through a greenfield WOS and have been present in the country since 1998 (Grundfos), 2001 (DHI) and 2008 (AVK). DHI originally started out in India with an external consultant, but later incorporated the consultant into a WOS. A major determinant of entry mode choice for the case firms is standardised headquarter (HQ) practices with regard to internationalisation. Thus, in the case of all three case firms, WOS modes of entry are, by default, utilised in all markets, where the firm has an equity stake – regardless of the market’s institutional environment. The only exception to this is in markets where legal restrictions necessitate shared equity or where a cooperative entry mode would provide the firms with market access or specific product technology (CF3,2). When asked why this was the case, most interviewees pointed towards firm-practiced centralisation and the need for control in order to protect production technologies and a globalised brand (CF1,1; CF2,1).
According to IE2, this is the case for most of the larger Danish MNCs in India, which consistently internationalise through a WOS mode of entry (IE1). A WOS is likewise an entry mode IE1 recommends in India, pointing towards “a number of cases where Danish JVs with Indian firms have gone wrong with time-consuming and costly repercussions as a result” (IE1). Should a firm decide to enter through a cooperative entry mode, there are a number of precautions it must take. First, it needs to have a profound understanding of the market and have access to the right networks in order to validate the potential partner – which is time-consuming, as it needs to understand the culture, politics and philosophy of both the country and the partner firm (CF3,2). Consequently, if the investing firm lacks country and market-specific knowledge, finding the right partner in India for a JV can prove difficult, as the sheer size and dissimilarity of the country necessitates thorough research (CF3,1; IE3). In a similar vein, the firm should make contact with the Investment fund for Developing Countries (IFU), DI, the Embassy or another trusted agency prior to the establishment in order to seek guidance in choosing a partner, as “there are some bad apples” (IE1) and, hence, a need to “chose carefully” (CF2,2). Furthermore, one interviewee stated: “you should not establish a JV only to reduce institutional distance” (IE3). A JV is only relevant if the partnership enhances the product offerings or improves access to new markets (IE3), such as breaking into lower segments of the market with cheaper products, which is not without risks, nonetheless (CF1,2). Likewise, cooperative entry modes are complicated by a number of specific barriers, which will be elaborated upon in the following sections.

In order to operate efficiently in India, most firms nonetheless depend heavily on local knowledge not found within the internal boundaries of the firm (IE1; IE2; IE3; CF1,2; CF2,2). However, “using consultants can often replace the knowledge possessed by partners to navigate the market” (IE1; IE3). Alternatively, or simultaneously, “alliances with firms that have an established fast-lane to public decision-makers is a good strategy” (CF2,2). Furthermore, employing competent local employees in management positions is seen as vital in reducing the entry barriers of the Indian market (CF1,2). Consequently, in general, most interviewees pointed towards measures and strategies not related to the mode of entry in order to deal with the institutional voids of the Indian market.

5.3. Market Attractiveness and Openness

“India is en route to become a vital market in addition to offering rewarding production facilities” (IE1)
All interviewees stated that the Indian market already is, or has the potential to become, a strategically important market for Danish firms – particularly within the water sector, which is experiencing rapid growth spurred by a relatively young and expanding middle class requiring better water quality and sanitation (IE1; IE2; CF1,1; CF3,1). FDI-friendly reforms throughout the 1990s and the election of a water-focused and business-friendly prime minister in 2013 have further increased the confidence of the interviewees that the water market will thrive over the following decades (IE1; IE2; CF1,2).

“There are no legal or regulative restrictions for entering and operating in the Indian water sector” (IE1)

Foreign firms are free to set up their operations within the Indian water sector as they see fit (IE3). This entails most, if not all, aspects of the sector, including manufacturing, software and services (IE2; IE3; CF2,2). Furthermore, there is neither implicit nor explicit discrimination towards foreign firms in the sector – neither in the public nor the private water sector (IE2; CF1,2). “The Indian water market is not discriminatory against foreign firms – it is discriminatory against all firms” (CF1,2) and all firms face the same bureaucracy, tedious paperwork and corruption (IE2). However, as the sector is predominantly located within the public domain and is state-regulated, firms face a steep learning curve in order to become acquainted with the applicable procedures and gain access the right channels (IE2; IE1). This is potentially a daunting task – especially for smaller firms. Firms therefore need to take a long-haul perspective with regard to the Indian water market – they will not see a return on investment from day one (IE2). However, after overcoming the initial obstacles, public tenders are generally transparent and open and all firms are able to bid – with the winning bid usually being the firm providing the best solution (IE2).

Questioned as to how market attractiveness and openness affect the inclination to a specific entry mode, most interviewees stated that both are linked to a WOS mode of entry (IE3; CF2,2; CF3,2). The absence of regulative restrictions on WOSs and the lack of practical discriminatory behaviour towards foreign firms decrease the importance of a partner firm, while a strategic market incites a desire for more control in order to optimally harvest market returns (CF2,1). CF2,1 stated directly that a WOS was chosen due to the number of potential projects in the country, while CF1 talked about the need of a WOS due to the size and complexity of the market and the presence of significant trade barriers, which made the use of sales agents inefficient.
5.4. Firm Resources

Firm resources, both with regard to size, experience and knowledge intensity, seem to constitute a cornerstone of entry mode choice, as, throughout the interviews, the necessity of financial latitude and accessible resources was highlighted as vital in dealing with the challenges of the Indian market.

Size and Experience

“Smaller Danish firms do not possess the bandwidth to come to a far-away market like India”

(IE2)

A prerequisite for entering the Indian market seems to be a minimum firm size and international experience – unless you occupy a niche market (IE1; CF2,2; IE3). Most Danish firms who have a physical presence in India are relatively large and possess internationalisation experience from other markets (IE1; IE2; IE3). When asked why smaller Danish firms are not present in the market, geographical and institutional challenges were stated as key barriers for Danish SMEs (IE1; IE2; IE3). Smaller firms simply do not possess the time, the resources or the network to engage in a market such as India, where an investment necessitates constant presence and often does not bear fruit for several years (IE2; IE3). Those SMEs that have entered India, have comparatively often done so through a JV, or have initially established a JV and subsequently transformed to a WOS, as size and knowledge of the market expanded (IE1; IE2).

Most interviewees stated, explicitly or implicitly, that size and previous internationalisation experience were positively related to a WOS entry mode choice and that entering the Indian market would be difficult through a WOS if the firm was below a certain size. As a result, hypothetically, a cooperative entry mode would therefore be more applicable if the firm lacked size and international experience (CF1,2; CF2,2; CF3,1). CF1 did not rely directly on the parent firm from the onset, but stated that globally-tested organisational practices were employed in its Indian subsidiary and that the general manager was frequently in Denmark in order to synergize HQ and subsidiary values and practices (CF1,1; CF1,2). As advocated by the industry experts, rather than solely relying on parent experience, CF1,1 mentioned that they made extensive use of IFU in the beginning of their internationalisation process in order to gain access to the market. In time, they developed the capability to navigate the market on their own and now consider themselves on an even playing field compared to local competitors with regard to institutional voids and governmental access (CF2,1). CF2 and CF3,1 specifically stated that the Indian subsidiary benefited from the resources of the parent firm – both financially and with regard to organisational practices and brand recognition. CF2 stated that “Having a famous and respected brand along with our size...”
and experience was and still is an invaluable asset for our Indian operation” (CF2,1), while international experience reduced initial entry barriers and global network and brand recognition eased the access to projects for CF3.

Knowledge Intensity and Threat of Opportunism

“Yes, I would definitely think so” (IE1) – on the question whether firms are holding back on JVs due to the potential decrease of production quality.

All interviewees stated that the competitive advantage of Danish water firms is to be found in technology and knowledge-intensive products and services, including quality, superior production technology, durability, reliability and superior service (CF1,2; CF2,1; CF3,2). The three case firms offer products and services aimed at the top-tier of the Indian market – “it’s quality Indians have rarely seen before” (CF2,1). Consequently, the value of the product offering was at a higher risk of being eroded due to institutional voids; for example, due to a lack of basic infrastructure, below-par suppliers and non-conforming partners (IE1; IE2; CF2,1).

“I would be wrong if I said it was not a risk” (IE2) – on the risk of opportunistic behaviour from partner firms.

A number of the interviewees stated that a JV could potentially jeopardise the competitive advantage of Danish firms (IE2; CF2,1). First, sub-quality production is potentially more prominent through a JV, which could degrade the quality and defame the investing firm’s brand (IE1; CF1,1; CF2,1). When asked directly if the nature of their product offering and the risk of opportunism played a role in the selection of entry mode in India, only CF2 responded positively, stating a need to centralise the group in order to protect the brand as a leading reason for establishing a WOS. When asked if, hypothetically, knowledge intensity and the risk of opportunism could be a reason to avoid a JV in India, both CF1 and CF3 responded positively, as well as most industry experts, stating limited access to market information and the extensive resources needed to engage in courts, if applicable (IE3). However, most of the interviewees stressed that IPR infringements are relatively limited in India compared to neighbouring countries.
**Degree of Resource Augmentation**

“Our requirement for local knowledge resides with market knowledge, not production knowledge” (CF1,1)

The relatively high price of Danish products has resulted in a number of failed orders and tenders, as Indian demand is focused on initial price and not on life cycle calculations, which is a better match to the quality offered by Danish firms (IE1; IE2; CF2,1). Hence, most interviewees touched upon the possibility of adjusting product offerings to the Indian market in order to appeal more broadly – a strategy called defeaturing (IE2; IE1; CF3,2; CF1,2). Furthermore, given the existing trade barriers in India – the highest in the world in some areas (CF1,2) – the case firms aimed at localising as much of the production as possible in the country through local assembly. Moreover, CF1 has started, in collaboration with top universities and other non-equity mode partnerships, to manufacture, albeit at a nascent stage, products that are specifically tailored to the Indian market. Currently, neither of the production firms have full-fledged manufacturing facilities in India – this is, nonetheless, on the long-term agenda.

A cooperative entry mode could provide Danish firms with access to novel knowledge, as this would open up access to less-costly production methods utilised by local competitors (IE1). In this regard, CF1,2 mentioned that an acquisition could potentially be interesting, but it is not something that the firm is currently contemplating. Similarly, there are very few examples of Danish firms engaging with their Indian counterparts with the intention of absorbing know-how and technology – the reverse is the norm (IE1). Instead, Danish firms focus on the top-end market and on changing tender procedures and the overall quality perception in India (CF1,1; IE2). Consequently, the local knowledge input needed by Danish firms is an understanding of a market that is markedly different than in the West – not of production technology (CF1,2). This entails, inter alia, an understanding of how the relatively weak infrastructure affects the functioning of their products, such as in the case of frequent power shortages and seasonal periods of heavy precipitation (CF1,1; IE1).

Hence, the case firms and industry experts are of the opinion that Indian firms within the water sector offer limited access to exclusive production technologies, which could justify establishing a cooperative entry mode. Both a JV and an acquisition do provide access to vital market knowledge; however, this knowledge is available by other means, as will be elaborated in the product market section.
5.5. Formal Institutions

“The world’s largest democracy also means the world’s largest bureaucracy, unfortunately”
(CF2,2)

Interviewee statements like “a Dane would really struggle and be frustrated out here” (CF1,2) and “India is not, and I stress not, an easy market to enter” (CF2,2) were commonplace when discussing formal institutions. India definitely struggles with a number of weak formal institutions, including bureaucracy, government inefficiency and corruption, which complicate the operation of Danish firms in the country (IE1; IE2; CF1,1). Taken as a whole, weak formal institutions translate into substantial entry mode barriers for foreign firms – especially smaller firms “who do not possess the resources to navigate the market” (CF2,2). Consequently, “Understanding and effectively navigating formal institutions are key to business success – this is difficult without external help” (CF2,1).

Bureaucracy

“India beats everyone when it comes to bureaucracy” (CF2,2)

With the exception of the lack of quality perception in the Indian water market, government inefficiency or bureaucracy was stated by most interviewees as the biggest challenge of operating on the Indian market. Everything is “painstakingly slow” (IE1) and direct access to decision-makers is rarely the case (CF2,2). As a result, a business strategy fixated only on economic indices will fall short (IE3). Firms need to take into account these additional costs of operating in an environment, where most normally standardised procedures are time-consuming (CF1,2). In this regard, IE1 and CF2,2 mentioned a public project performed by a Danish consortium in an Indian state, which still lacked the final payment – despite having been completed for over a year. The reason was not fraud, per se, but a tedious procedure where 20 signatures, in the right hierarchical order, had to be signed before the money was disbursed (CF2,2).

Local firms are, to a certain degree, better at manoeuvring the complex environment. However, foreign firms are not, over the long-haul, at a disadvantage compared to local firms – assuming that the foreign firm takes the right steps, i.e. accessing local knowledge residing within the consulting and Danish governmental agencies and employing locals to management positions (IE2; IE3; CF2,2). The interviewees acknowledged that partnering-up with local firms could reduce the bureaucratic hassle, but stated that a JV or acquisition also had disadvantages, such organisational costs and less production control, and that bureaucracy is surmountable through other means (IE3).
**Corruption**

“If the price is set to 100, set aside 120 – consistently. You are not a part of the corruption, but someone, somewhere demands a few percentages before signing” (CF3,2)

Corruption is widespread in India and poses a real threat to Danish firms, as the effect of intentionally or unintentionally, directly or indirectly engaging in corrupt behaviour could prove costly for a firm’s overall brand and its financial performance (IE1; CF3,2). All three case firms have a strict zero-tolerance policy in regard to corruption, which often leads to a wall of bureaucracy and the effective exclusion of operating in certain markets and industries, as “there are businesses we stay completely out of due to widespread corruption” (CF1,1). Nonetheless, corruption is not omnipresent; it should not take up all of a firm’s resources (CF2,1) and should, furthermore, be dealt with on an individual basis due to its complex size (IE1; IE2; CF2,1); “A reason for high corruption in the country is probably low public wages – corruption is an essential income for many people” (CF2,2). Likewise, corrupt decision-makers become more short-term focused, which is unfavourable to Danish product solutions, as “it is better to get a little bribe every year than a big one once a decade” (CF2,2). Consequently, corruption is an institutionalised aspect of Indian society and firms must look at tender specifications and legal compensation schemes, inter alia, in order to circumvent it (CF2,2).

None of the interviewees could point to cases where a JV resulted in brand degradation or corruption scandals for the investing firm. Nonetheless, given the dissemination of corruption across the country, it is not inconceivable that a JV, albeit reducing the cost of manoeuvring the market, would increase the risk of engaging in corruption, and thus act as a deterrent to collaborating with a local partner (IE1; CF1,1; CF2,1). Consequently, policies on how to tackle corruption should be carefully considered when forming a JV (IE1), which would result in higher overall TCs (IE3).

**IPR Rights**

“The rule of law works, but it takes time – a lot of time” (IE3)

IPR rights are relatively well-upheld in India compared to other emerging countries, and that it is “not as bad as China” was stated a number of times (CF1,2; IE1; IE2). IE1 stated that there are cases of Danish firms locating subsidiaries in India at the expense of China and other emerging markets due to the systematic IPR infringements in those countries. In line with this, none of the case firms have experienced major
infringements of their IPR rights and state that this is not an area to which substantial resources are allocated.

Nonetheless, the rule of law and IPR rights are not on par with the West. A few of the interviewees had experience with IPR infringements and stated that “Indian courts... stay away from Indian courts” (CF3,1) and if possible, one should settle outside the courtroom (CF3,1). Participating in judicial issues is very time-consuming as well as costly, and consequently, constitutes a financial drain for smaller firms (IE3).

5.6. Informal Institutions

“Each month I thought I had accumulated enough knowledge to understand the Indian mind – I was wrong every subsequent month until I left the country” (CF2,1)

All interviewees agreed that there are significant cultural differences between Denmark and India and that these dissimilarities must be explicitly dealt with in order for the subsidiary to operate successfully – independent of the mode of entry. The cultural distance increases TCs, as thorough pre-entry and governance analyses have to be conducted and control mechanisms, such as extensive organisational procedures and guidelines, set in place (IE3). Hence, culture could potentially be a major liability of foreignness for Danish firms if not dealt with properly (IE2).

None of the interviewees stated that the cultural distance between home and host country necessitated or favoured a JV. On the contrary, one interviewee stated that “I’m sceptical – overhead costs would be huge” (CF2,1) in referring to the integration process such an undertaking would entail. Instead, the interviewees, both case firms and industry experts, focused on pre-entry research and preparation, specifically on cultural differences, setting up the right management structure and utilising the local knowledge residing within DI, IFU, the Embassy and local consulting agencies (CF1,1; CF2,1; IE1; IE2; IE3). Thus, “culture is absolutely manageable (IE3) and “choosing the right management structure should limit most cultural problems” (IE2). This entails “balancing Danish values and incorporating those with Indian values” (IE3) as “it is in no one’s interest to uproot local habits and features” (CF2,2).

Overall, the interviewees advocated a subsidiary management consisting mainly of Indian employees (IE1; IE2; CF1,1, CF2,2) and then dealt with through an “effective governance structure” (IE3), where organisational policies and guidelines are well-defined and consistently practiced (CF1,1) and where there is ongoing communication between HQ and subsidiary (IE2). By employing well-educated Indians with international experience, it should be possible to effectively coalesce or intermediate these cultural
differences (CF2,1). In this regard, CF2,1 mentioned the need to employ HQ expatriates at their Indian subsidiary in order to synchronise the workings of the subsidiary and the HQ, as there are two sides to effective organisational culture; namely, understanding the local culture and integrating the subsidiary into the global procedures of the parent firm.

Most Danish subsidiaries in India are, as a matter of fact, managed by Indian nationals (IE1). Two of the three case firms have Indian general managers, while all three case firms have a majority of locals in management positions (CF1,1; CF3,1; CF2,1). A prerogative for such a management approach is, however, a strong organisational culture, where clear and tested guidelines and procedures are put into function as well as followed, and where subsidiaries’ objectives need to be carefully aligned with the firm’s overall business strategy (CF1,1; IE2).

5.7. Product Market

“The Indian water market is akin to a microcosm of India, with an even denser layer of bureaucracy and corruption” (IE3)

The interviewees identified three major flaws or voids with the Indian water market or its product market; all derived from the overall environment and then exacerbated by the state of the water sector; namely, the state of inertia created by a public sector teeming with corruption and bureaucracy, the quality of perception or lack thereof, and the relation-based way of doing business in the sector. Consequently, despite purported competitiveness, Danish firms often have difficulties in manoeuvring the market.

Inertia

“The bulk of water projects are found in the public sector” (IE2, 8), and as water is a state matter in India, this translates into 29 different regulative regimes with 29 different tender requirements for the firms in question (IE1; CF2,2; CF2,1). One interviewee described this as “a jungle” (CF2,2), and another remarked that “waste water and ground water – two inextricably linked subjects – are governed by departments as different as a Greenlandic firm and an Indian ministry” (CF2,1). Consequently, “the public Indian water market is irresponsive, slow and hard to access and getting the first sale in the public Indian water sector is a tedious, time-consuming process” (IE1). Furthermore, “finding the right numbers on the water sector is difficult in places” (CF2,2) and it is “difficult to get access to the right people” (CF2,1) as “you get access to floor three at most with no relations, where floor 35 is where the decisions are being made” (CF2,2). As a
result, there is a state of substantial inertia and red tape in the Indian water market that undoubtedly complicates the operation of Danish firms in the market (IE1). Consequently, “local knowledge is a necessity – the complexity is unbelievable and not easily available to foreign firms,” (CF1,2).

However, despite its flaws, the product market enjoys one vital benefit; namely, the presence of many international consulting and research agencies in addition to the governmental presence of most nations aiming to boost trade with India (IE1; IE2; IE3; CF1; CF2,1). Consequently, the tacit knowledge of doing business in India is, to a certain degree, codified and available through interaction with these organisations. It is a resource- and time-consuming process with a steep learning curve (IE2); nonetheless, by collaborating with these organisations, firms should be capable of accessing and processing the local knowledge needed in order to navigate the voids of the market without the necessity of forming equity partnerships with local firms (IE3; IE1; CF1,1). Thus, the state of inertia in the sector is not in itself a reason to establish JV (IE3).

**Quality Perception**

All interviewees stated that a persistent focus on initial price and a lack of quality perception in India constitutes a major hurdle (CF1,1; CF3,2; CF1,2). This effectively means that, despite being more competitive over the full life circle in many instances, only 3-5% of the market is attainable for Danish firms (IE1; CF1,1). Consequently, a business strategy based on a cost/benefit analysis will overestimate the market, as social and normative premises hinder access to many projects, as corruption, inter alia, reduces the focus on long-term planning (CF2,2). As a result, significant resources are used in dialogues with decision-makers, with the aid of third party organisations, such as the Danish Embassy, in order to modify public tender specifications and cost calculations (IE1; CF1,1). These transaction costs are not reflected in a traditional institutional analysis and may therefore pose an additional burden on the firms.

**Relation-Based Transactions**

CF3,1 stated that it is not possible to do business in India by flying in a couple of times a year on business class and staying at five-star hotels. You need a constant presence (IE3) and you need to build up trust from your local partners and consumers (CF2,1). This is time-consuming and the financial returns should not be expected within the first few years (IE2). Both CF2,1 and CF1,1 talked about how their firms’ long-term presence in India has opened up access to projects and networks most likely not accessible to firms who have recently entered the country. In the case of CF2, projects made in collaboration with public, Indian
stakeholders decades ago still ease access to new projects, as the word of mouth is of such importance when doing business in the country – even though most of these initial stakeholders have since retired or moved on (CF2,1). CF1 mentioned that the relationships CF1 has created through their prolonged stay in the country now effectively substitute the need for Danish officials and other agencies in facilitating business transactions.

5.8. Labour Market

“Top Indian management is kind of a bridge between Danes and Indians, well-travelled and aware of the culture on both sides, making him or her able to match these accordingly and drive the business successfully” (IE2)

Generally, the interviewees were of the opinion that “finding and hiring the right people is relatively easy in India – there exists a large talent pool within most positions” (CF1,1). All interviewees stated that, despite regional variations, taken as a whole, access to labour is eased by India being an English-speaking country and the country possessing a number of top-tier universities (IE1; IE2; IE3; CF2,1). IE1, CF3,2 and CF2 mentioned that the process of hiring people is naturally more complicated than in the West; attrition rates are high and firms need to conduct thorough research and examinations. Nonetheless, most positions within their subsidiaries could be staffed with local employees. Hence, contrary to most emerging markets, labour does not constitute a significant void.

The ease of validating and accessing qualified local labour seems to be central to the capability and efficiency of a WOS entry mode, especially with regard to cultural clashes. IE1 said “what we see in India is that, despite, or due to, the firms establishing WOSs, management positions are often exclusively occupied by locals”. All interviewees mentioned local labour as being an important asset in overcoming institutional challenges or institutional voids and stated, for example, that “upon establishment, get a good first local employee – he will guide the firm” (IE1, and that not using a local management “could be a disaster” (CF1,2). Furthermore, one interviewee stated that “most of our offices in developing countries are manned by western managers – not in India” (CF2,2) and another interviewee stated “absolutely!” (CF1,2) when asked if hiring local management could replace a JV with regard to navigating institutional voids. Thus, due to the well-functioning labour market, all three case firms and the industry experts either utilise or advocate employing locals for management positions in order to reduce the liability of foreignness when operating a WOS in India (CF1,1). CF1, for example, hired an Indian national from the onset to run the
Indian subsidiary. This meant they had a general manager that understood the Indian way of doing business and was able to identify and access the right contacts effectively (CF1,1).

5.9. Capital Markets

“*India is known to be somewhat difficult at times when you do an acquisition because you can’t always really find out what it is you are buying*” (CF1,1)

Most interviewees agreed that the capital market in India is well-functioning and does not constitute significant problems for the Danish companies in the country, and that this is not something on which significant time and resources are expended. Nonetheless, litigation is time-consuming and despite de facto availability of financial information, a number of the interviewees questioned the ease of obtaining all necessary financial information on potential partners – thus complicating a JV and acquisition (IE1; CF2,1; CF3,2; CF1,1). In a similar vein, CF2,1 stated “*I would be worried to finance and build a business based on Indian capital*” (CF2,1) and that “*I would need a number of excellent lawyers first*” (CF2,1) – when asked about engaging in an acquisition.

Thus, despite above-par capital markets compared to emerging markets, India was still considered a somewhat risky venture in this regard by the interviewees.

5.10. Conclusion

In sum, the interviewees, with reasonable conformity, pinpointed the state of the institutional landscape in India. Summarised, the state of institutional voids in India is depicted in table 4.
Table 4: Perceived voids by the interviewees

<table>
<thead>
<tr>
<th>Institution</th>
<th>State</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Formal institutions</td>
<td>High</td>
<td>The degree of bureaucracy and corruption in the country, among other things, is extraordinarily high.</td>
</tr>
<tr>
<td>Informal institutions</td>
<td>High</td>
<td>Most interviewees stated that cultural differences cannot be dealt with through internal knowledge only.</td>
</tr>
<tr>
<td>Product market</td>
<td>Medium/High</td>
<td>General quality perception and the state of inertia hinder business and access to information and decision-makers. Albeit time-consuming, tacit knowledge is codified and available through multiple organisations.</td>
</tr>
<tr>
<td>Labour market</td>
<td>Low</td>
<td>Top-tier universities, along with a large English-speaking talent pool with international experience, reduce labour market challenges.</td>
</tr>
<tr>
<td>Capital market</td>
<td>Low/Medium</td>
<td>Well-developed banking and stock markets. However, the interviewees were not without reservations about its reliability.</td>
</tr>
</tbody>
</table>

Concerning the effect of the theoretical determinants on entry mode choice, it seems that firms’ resources play a crucial role with regard to entry mode choice and institutional voids – corresponding to IE3’s view that only resource augmentation and legal restrictions could spur collaborative entry modes. Consequently, the case firms, and most Danish firms with a presence in India, utilised a WOS mode of entry, as most of them exhibit significant size and expertise in addition to the need to protect their competitive advantage. Nonetheless, it should be noted that well-functioning labour, research and consulting markets in India potentially negate the need for collaborative entry mode. The effect of the theoretical determinants on entry mode choice in our case is summarised in the table below. Note, this table takes into consideration the state of firm resources and institutional voids as perceived by the interviewees and the corresponding effect on entry mode choice, and not how these determinants affect entry mode in general. This will be covered in the discussion section.
Table 5: Empirical effect on the theoretical propositions

<table>
<thead>
<tr>
<th>Determinant</th>
<th>Effect</th>
<th>Comments</th>
</tr>
</thead>
<tbody>
<tr>
<td>Market attractiveness</td>
<td>WOS</td>
<td>Most, if not all, interviewees believed increased market attractiveness was linked to a WOS mode of entry.</td>
</tr>
<tr>
<td>Firm size and experience</td>
<td>WOS</td>
<td>Most, if not all, interviewees believed increased firm resources increased the propensity to enter through a WOS.</td>
</tr>
<tr>
<td>Knowledge intensity</td>
<td>WOS</td>
<td>Most, if not all, interviewees believed this was the case – both due to opportunistic risk and quality degradation.</td>
</tr>
<tr>
<td>Resource augmentation</td>
<td>–</td>
<td>Firms did not rely on Indian product technology and gained market info through non-equity means. Thus, neither applicable nor pinpointed in the findings.</td>
</tr>
<tr>
<td>Formal institutions</td>
<td>–</td>
<td>Ambiguous. A JV/acquisition would reduce formal voids, but the higher the voids, the higher the governance costs and the risk of corruption in a collaborative entry mode.</td>
</tr>
<tr>
<td>Informal institutions</td>
<td>–</td>
<td>Ambiguous. Cultural differences increase the governance cost of JV, while a JV would reduce certain institutional voids.</td>
</tr>
<tr>
<td>Product market</td>
<td>–/WOS</td>
<td>Lack of knowledge to navigate the market could spur a JV. However, the same ambiguity as above, while, most importantly, available market information through the product market spurred a preference for WOS.</td>
</tr>
<tr>
<td>Labour market</td>
<td>WOS</td>
<td>An excellent labour market renders collaborative entry modes unnecessary for dealing with certain voids.</td>
</tr>
<tr>
<td>Capital market</td>
<td>–/WOS</td>
<td>Despite functioning capital markets, interviewees were reserved about the information needed to establish a JV or acquisition.</td>
</tr>
</tbody>
</table>

6. DISCUSSION

This chapter returns to the theoretical framework and discusses it in the light of the empirical data from the interviews and the secondary sources. In accordance with the research question, the aim is to compare the empirically-based patterns with the theoretically propositioned ones and ultimately uncover:

- How does the institutional context affect entry mode choice for Danish firms within the Indian water sector?

6.1. Market Attractiveness and Openness

Following Agarwal and Ramaswami (1992) and Nakos and Brouthers (2002), the interviewees mostly agreed that market attractiveness was positively related to a WOS mode of entry. The interviewees stated
that the size of the market was related to the need for control (CF2,1), and in order to realise the market attractiveness, a WOS would be best suited. This supports Holtbrügge and Baron’s (2013) findings that equity modes of entry are expected to provide higher long-term profitability compared to non-equity modes of entry. Hence, as India already is, or has the potential to become, a strategic market, the effect seems to point towards a direct presence through a WOS mode of entry, as firms want to directly manage all aspects of the subsidiary due to the strategic impact on the overall firm performance.

Furthermore, market attractiveness and a WOS mode of entry seem to be related to the long-haul of the Indian market, as firms are willing to spend additional money and resources compared to a cooperative mode of entry, and thus sacrifice short-term profits in order to gain higher market shares in the long-run (Holtbrügge & Baron, 2013). In sum, the empirical findings of the thesis corresponded to the theoretical propositions.

6.2. Firm Resources

The theoretical framework’s proposition is that a chosen entry mode must be capable of being supported by the firm’s size and experience, while protecting or enhancing its competitive advantage within the given host market institutional environment (Morschett et al., 2010; O’Cass et al., 2012).

All three case firms exhibit similar firm resources. First, the firms are comparatively large. Second, all three firms have extensive international experience – also prior to entering India. Third, they are all global market leaders within their product offerings – boosting valuable knowledge and know-how. Hence, it is theoretically expected that these firms should possess the resources needed to handle a volatile market through a WOS entry mode (Agarwal & Ramaswami, 1992; Ahsan & Musteen, 2011; O’Cass et al., 2012). Furthermore, the transfer and the protection of their competitive advantage – the knowledge and technology in their product offerings – is costly and of utmost importance to protect from opportunism and brand/quality degradation (Ekeledo & Sivakumar, 2004; Meyer, Wright & Pruthi, 2009; O’Cass et al., 2012). It is therefore in line with the RBV literature that the case firms have chosen a WOS entry mode (Brouthers et al., 2008, p. 191; Meyer, Wright & Pruthi, 2009).

The interviewees distinguished between two rather different forms of resource augmentation, which were not pinpointed in the literature review; namely, market knowledge augmentation and production augmentation (IE3). The interviewees stressed that the complementary assets held by local firms were
mostly restricted to the effective manoeuvring of the Indian market and not the enhancement or augmentation of a product technology itself. Due to the vibrant consulting, research and labour markets in India, this knowledge of effective market manoeuvring did not constitute a sustainable competitive advantage (Barney, 1991; Hennart, 2009). In agreement with Meyer, Wright and Pruthi (2009) and Brouthers and Hennart (2007), most interviewees touched upon the resource fungibility (i.e. transferability) of their competitive advantage and the dependence on locally-bound knowledge. CF2,2 stated that “pumping a litre of water is practically the same in Denmark as in India”; consequently, resource fungibility is relatively high for most of the firms, while the required market knowledge or augmentation is relatively easy to obtain through external means – especially when weighted against the risk and uncertainty of a cooperative entry mode. Hence, a WOS mode of entry is also in line with the RBV literature on resource augmentation, as the assets provided by a JV or acquisitions are relatively easy to transact externally (Hennart, 2009; 2012; Ahsan & Musteen, 2011).

Based on the statements of the interviewees, it seems that Danish firms are internationalising incrementally and in accordance with the Uppsala Model of Internationalization (Johanson & Vahlne, 1977), as mostly large and experienced firms are present in India. Initially, firms expand into neighbouring markets through non-equity modes, and subsequently expand into markets geographically and institutionally more distant from the home market (IE2). Hence, as stated by IE1 and IE2, it seems that larger firms with superior resources interact differently with the institutional environment as compared to SMEs (Brouthers & Nakos, 2004) and more often opt for a WOS (Nakos & Brouthers, 2002), as their resources enable them to overcome the institutional voids through an internal mode of entry. Firms with limited resources (SMEs), on the other hand, face higher institutional barriers in India (IE3) and potentially face a decreased risk of opportunism and brand degradation for two reasons. First, the competitive advantages of SMEs are potentially less developed, since the size of a firm is often used as a proxy of its competitive advantage; as a result, the inclination of opportunism from partners decreases (Ekeledo & Sivakumar, 2004). Second, SMEs are, to a lesser degree, dependent on brand recognition and perception; consequently, the effect of potential opportunistic acts would be less detrimental for SMEs compared to larger MNCs, who rely on brand perception to sell at an increased mark-up (Spencer & Essoussi, 2010). As a result, the empirical findings are in accordance with the theoretical predictions on the effect of firm resources on entry mode choice.
6.3. Institutions

All interviewees stressed the institutional challenges of doing business in India, which drove up TCs (Holtbrügge & Baron, 2013). The interviewees identified several of the theoretically identified macro indexed voids, including bureaucracy, corruption, cultural differences and the lack of access to pertinent information, such as access to networks and how to deal with the general inertia in the sector (IE1). In conjunction with the liability of foreignness and the bounded rationality of the firm, this necessitated extensive pre-entry market research (IE3) and the implementation of a variety of control mechanisms (CF2) – corresponding with the emerging market literature (Wright et al., 2005; Khanna & Palepu, 2010) and the macro indices (Hofstede & Minkov, 2010; 2014; Kaufmann et al., 2013). An interesting note in this regard is the similarity, and thus the shortcoming, of the macro indices of emerging markets (Khanna & Palepu, 2010). As discussed in chapter 4, India and China scored similarly on most dimensions – in particular with regard to formal institutions. The interviewees, by contrast, pinpointed major differences between China and India, including heavy IPR infringement (CF1,2) and high governmental efficiency in China (CF2,2), and the fact that the high democratic score of India was not an advantage, but rather a challenge for firms in India due to the resulting inertia (CF3,2). Hence, and in addition to the importance of market intermediaries for institutional voids, an entry mode strategy based only on macro institutions and firm resources would be inadequate in capturing the nuances of institutional voids and the corresponding effect on entry mode choice (Khanna & Palepu, 2010).

6.3.1. Formal Institutions

This thesis operationalised formal institutions through the usage of Kaufmann et al.’s (2013) governance indicators in response to proposals to collectively assess the overall formal environment in regard to entry mode choice (Globerman & Shapiro, 2003; Slangen & Tulder, 2009). Nonetheless, based on the interviews, it seemed that the effects of the individual dimensions constituting the governance indicators on entry mode choice were divergent. Consequently, grouping these dimensions collectively did not yield a clear relation to entry mode choice.

In line with the IT literature (Zaheer, 1995; López-Duarte and Suárez, 2010), the interviewees stressed that the state of weak formal institutions increased external uncertainty and TCs, and that local firms, initially at least, were better at dealing with these voids (IE2). Teaming up with local firms would therefore reduce costs, as the local firms possess valuable knowledge in navigating a market distinctly unfamiliar to Danish firms. Hence, in the case of political stability, government efficiency and regulative quality, the interviewees
agreed a JV would reduce external uncertainty, or the cost of manoeuvring the market compared to a WOS (IE1; CF3,1). Nonetheless, due to the state of corruption and the rule of law in India, a JV would increase internal uncertainty as well, as the risk of opportunistic behaviour and partners engaging in corrupt practices would grow (CF2,2; CF1,1; Holtbrügge & Baron, 2013).

Consequently, the empirical findings did not support Slangen and Tulder’s (2009) statement that the effect of weak formal institutions on internal uncertainty is negligible. Rather, in accordance with Estrin et al. (2009), it seems that weak formal institutions enhanced the preference for a WOS for the firms in question, as the benefits of reduced external uncertainty was potentially outweighed by the increase in internal uncertainty. Three potential, interrelated reasons are available. First, the case firms, and Danish firms within the water industry in India in general, encompass a product offering based on knowledge and technology-intensive production. Hence, the risk of internal uncertainty in the form of brand degradation and opportunistic behaviour is higher compared to most other firms. Second, the firms, due to their size, boast a financial leeway that can, in a transition period, absorb additional costs for the sake of reducing internal uncertainty. Third, the knowledge needed to effectively deal with these voids is not tacitly bound to local firms – foreign firms can access the knowledge through other means.

6.3.2. Informal Institutions

Several of Hofstede’s cultural distance dimensions (Hofstede & Minkov, 2010) were highlighted in the interviews, including power distance, masculinity and uncertainty avoidance (CF1,1; IE1). These idiosyncratic cultural traits were not necessarily inferior in comparison to Danish traits (CF2,1; CF1,1), but they increased uncertainty and created organisational challenges for the investing firms (IE1, CF3,2), as these lacked knowledge of the host country’s norms (IE1), practices (CF2,1) and preferences (CF2,2). Thus, in line with Estrin et al. (2009), informal distance increased the need for local knowledge and created an additional layer of uncertainty that hiked TCs (Zaho, Lou & Suh, 2004). The challenges of dealing with the cultural difference were on such a scale that they could not be dealt with by internal knowledge alone (CF1,2; CF2,2).

However, as advocated by Slangen and Tulder (2009, p. 276), “cultural distance not only reflects the external uncertainty associated with WOSs but also the internal uncertainty associated with JVs”. Thus, the interviewees, in addition to acceding to increased external uncertainty, stressed how culture affected the internal uncertainty of a JV, as “the overhead cost would be huge” (CF2,1). This corresponds with the literature stating that organisational and cultural misfit makes cooperative entry modes difficult and more
costly (Meyer, Estrin et al., 2009; Estrin et al., 2009; Holtbrügge & Baron, 2013). Consequently, as was the case with formal institutions, the findings support the cultural distance paradox, where cultural distance can lead to both a preference for WOS and a JV due to increasing both internal and external uncertainty (Brouthers & Brouthers, 2001).

Nonetheless, a prerequisite for effectively handling a WOS in an institutionally distant market is strong internal guidelines and previous internationalisation experience, in addition to financial capability to absorb additional short-term costs of a WOS compared to a JV (CF1,2; CF3,2; Ekeledo & Sivakumar, 2009). Consequently, the findings indicate that large, experienced firms prefer to deal with cultural differences through a WOS instead of a JV or acquisition; this is not necessarily the case for smaller firms (IE2; Brouthers et al., 2008).

6.3.3. Market Intermediaries

The empirical findings on the effect of market intermediaries on entry mode choice constitute the central academic novelty in this thesis. The findings indicate that the effect of institutional voids on uncertainty and entry mode choice is highly dependent on the tacitness or stickiness of the knowledge needed to effectively navigate these voids (Khanna & Palepu, 2010). Market intermediaries, in this regard, serve a pertinent function as knowledge purveyors by facilitating informational access between buyers and sellers (Meyer, Estrin et al., 2009; Khanna & Palepu, 2010) – in effect substituting the role of local firms with regard to providing pertinent knowledge on how to navigate these institutional voids (IE3; CF2,1). Hence, if firms possess the resources needed to overcome a steep learning curve, they should be less inclined to enter through a cooperative entry mode if market knowledge is attainable through non-equity means (IE2; CF1,1). Consequently, it seems that institutional voids, per se, do not directly constitute an entry mode determinant, which is instead determined by the tacitness of the knowledge needed to navigate these voids – here market intermediaries play a vital role.

Product Market

In sum, there are three factors within the product market that increase uncertainty and TCs for the firms in question. First, the water market in India is predominantly a public market, which adds an additional layer of voids in the form of increased bureaucracy and corruption. Second, as a result of corruption and instability, the water market is mainly focused on initial price and not on life-cycle costs, where Danish firms excel. Third, due to cultural traits and the lack of functioning public control mechanisms (CF1,2), the
water market is predominantly relation-based, meaning long-term presence and trust are needed in order to conduct business (CF2,1; Meyer, Estrin et al., 2009). All three factors necessitate additional access to decision-makers and increase uncertainty, thus pointing towards a JV, where a potential local partner has the access, trust and the knowledge to effectively deal with these voids.

However, despite its voids, India and the water sector in the country are characterised by the presence of numerous consulting agencies and foreign governmental bodies specialised in dealing with the institutional voids in the country. This effectively means that the market knowledge needed to navigate the market is not solely possessed by local firms, but is available through interaction with these agencies (IE2; CF2,1); hence, foreign firms can access the required knowledge without establishing a JV (Hennart, 2009). Furthermore, as there is no practical discrimination towards foreign firms in the Indian water sector (IE2; CF3), the institutional voids in the country – after an initial period of increased costs due to the necessity of gathering and absorbing new knowledge – affect all firms equally (IE3; Holtbrügge & Baron, 2013). In this regard, CF1,1 mentioned that their prolonged duration in India gave them access to the same information and channels as local firms; consequently giving them a competitive edge compared to most foreign firms (CF1,1). Voids should therefore not only be viewed negatively, but as a dynamic measure capable of constituting competitive advantages, as firms can develop the capability to effectively navigate the market compared to firms with less experience (Peng, 2001; Ekeledo & Sivakumar, 2004; Khanna & Palepu, 2010).

As a result, a functioning product market reduces the tacitness or stickiness of the knowledge needed to deal with institutional voids. Therefore, and in accordance with the interviewees, it appears that the existence of effective research and consulting markets, among others, translates into a propensity to establish a WOS compared to a cooperative entry mode. This effect on entry mode choice was not uncovered in the literature review and could therefore extend the current literature on entry mode choice and bring about a novel contribution – if further substantiated by future research.

**Labour Market**

All interviewees stated that the employment of local management was essential in dealing with institutional voids – especially cultural voids – as local management capacitated the firms to deal with Indian norms and practices and manoeuvring the market in general. A well-functioning labour market is a prerequisite for the utilisation of local employment (Khanna & Palepu, 2010). Most interviewees agreed that the labour market in India was relatively well-functioning, and hence firms could establish a WOS and still keep external uncertainty at bay by employing locally, while reducing the subsequent internal risk.
through strong organisational practices (Ekeledo & Sivakumar, 2004). As a result, the risks of opportunism and brand/quality degradation were reduced through a WOS establishment, while the employment of local workers provided the knowledge to understand and manoeuvre the bureaucratic, regulative and social complexities of the market.

Therefore, the findings indicate that the existence of an effective labour market increases the propensity for firms to establish a WOS compared to a cooperative entry mode. This was also not pinpointed in the literature review.

**Capital Market**

The capital market was not a factor emphasised by the interviewees. Most interviewees stated that the market functioned relatively well, while a few expressed reservations regarding the reliability of financial information and the workings of the loan market (CF2,1). Interviewee CF2,1, in this regard, stated that he would be hesitant to engage in a JV or acquisition, which is in line with Peng et al.’s (2008) statement that cooperative entry modes – especially acquisitions – are sensitive to the efficiency of the financial market (Holtbrügge & Baron, 2013). In a similar vein, Brouthers et al.’s (2008) findings indicated that when legal distance grows, firms prefer to increase control in order to protect firm-specific resources – despite the additional costs.

As a result, the findings cautiously suggest that the existence of an effective capital market means firms are more inclined to establish a cooperative entry mode compared to WOS.

**6.4. Interdependencies**

Oliver (1997) argues that resource-based advantages should be contextualised within both the home and host market, as “what is valuable, rare, difficult to copy, and nonsubstitutable in one external institutional context may not be rare, valuable, difficult to copy, or nonsubstitutable in another” (Brouthers et al., 2008, p. 190). Based on this thesis’s substantiation of a multi-theoretical approach, and thus the statement above, entry mode terms, such as asset specificity, resource augmentation and uncertainty, must be paired with the external environment, as well as firm resources, in order to determine the effect on entry mode choice (Oliver, 1997; Tsang, 2010; Maekelburger et al., 2012). An analysis of entry mode choice incorporating theoretically overarching terms such as asset specificity or uncertainty, while neglecting
external institutions – in particular market intermediaries – will encourage flaws that may result in inferior outcomes (Oliver, 1997; Brouthers & Hennart, 2007; Madhok, 2007; Tsang, 2010; Khanna & Palepu, 2010).

Asset specificity is, in essence, the same as the cost of relocating a firm’s resource-based advantages to a host market. Firms need to acknowledge that bounded rationality and opportunism create internal and external uncertainties, which lead to asset specificity – especially in institutionally weak markets (Meyer, Wright & Pruthi, 2009). Consequently, when firms enter such markets and lack context-specific knowledge, they may experience a value erosion of their resource-based knowledge, because without a proper understanding of the institutional context, the risk of opportunism and inefficient utilisation increases (Brouthers et al., 2008). Hence, asset specificity, especially within newer, updated models incorporates the IT and RBV perspectives and is confronted with the same limitations regarding entry mode determinants as IT struggles with; namely, the divergent effects of formal and informal institutions on the benefits and cost of cooperating with a local partner (Estrin et al., 2009; Slangen & Tulder, 2009; Maekelburger et al., 2012). Nonetheless, very few studies have linked asset specificity to both firm resources and institutional factors (Maekelburger et al., 2012).

Due to its complexity, the study of asset specificity and entry mode choice should first and foremost be consistently operationalised (Zhao et al, 2004) and expanded to include safeguards (Maekelburger et al., 2012) or control variables on firm resources, formal/informal institutions as well as market intermediaries. This could shed new light on the inconclusive and fluctuating findings on asset specificity and entry mode choice (Brouthers & Hennart, 2007). First, firm size and internationalisation experience reduces uncertainty, and thus asset specificity, while still increasing the likelihood for equity modes of entry (Brouthers & Nakos, 2004; Maekelburger et al. 2012). Second, home market nationality and industry have been shown to have a direct and interdependent influence on entry mode choice (Brouthers & Brouthers, 2003). Third, institutional voids, including formal/informal institutions, in addition to market intermediaries, as shown in this thesis (Khanna & Palepu, 2010; Hennart, 2012), could influence the effect of asset specificity on entry mode choice. Consequently, the findings of this thesis point toward a holistic approach to asset specificity, where especially institutional voids and market intermediaries are incorporated, as the state of asset specificity could be significantly altered due to, for example, an effective labour market (Khanna & Palepu, 2010; Maekelburger et al., 2012).

The asset specificity of the case firms is high due to the characteristics of their resources, as well as due to the identified institutional voids, which potentially erode the value of the transferred resources (IE1; CF1,2). First, the high knowledge intensity of the firms’ product offerings makes it difficult to transfer these
externally without loss of value (Brouthers, 2002; IE3). Likewise, due to the interviewees pointing to brand as a competitive advantage, efforts need to be made to ensure brand retention (CF2,1). As a result, firms need to set up control mechanisms in order to safeguard their technology from misappropriation (Gatignon & Anderson, 1988; CF2,1; CF3,2) – especially when utilising an equity approach of entry and when substantial voids exist (IE1). Hence, the findings, in line with the integrated literature on entry mode, link the interdependence between internal firm resources and the external market, and, as a result, a concept such as asset specificity is dependent on both (Brouthers & Hennart, 2007; Maekelburger et al., 2012).

6.5. The Revised Theoretical Framework

In the findings, entry mode choice is, to a large degree, determined by firm resources, as all three case firms entered India through WOSs – an entry mode aimed for in most markets. According to the industry experts, this is a practice applicable to most of the Danish firms in India. A cooperative entry mode is only applicable if there is a need to access product technology or gain quicker access to the market (CF1,2; IE3). This is in line with Brouthers et al.’s (2008) findings that firms with strong resource-based advantages are not significantly influenced by the institutional environment in regard to entry mode choice; a WOS is most often utilised. Hence, institutions, per se, are potentially not a reason to establish a cooperative entry mode for firms with strong internal resources. Nonetheless, institutions could determine whether large and experienced firms are willing to establish a cooperative entry mode in order to access market shares or product technology (Brouthers, 2013).

Furthermore, in cases where firms possess weaker resources or when the institutional setting is different to India – e.g. a market with institutional voids, low risk of opportunism and a lack of product and labour intermediaries – the weight of institutional voids could have a direct impact on entry mode choice. Consequently, the interpretation of the findings in this thesis should reflect the comparatively strong resources of the firms and the relative ease of access to tacit market knowledge through means other than a cooperative entry mode.

Unidentified in the literature review, the findings indicate that strong market intermediaries play a vital role in counterweighting the tacit market knowledge held by local firms when significant institutional voids are present. Hence, firms are able to enter markets teeming with institutional voids, but still manage a successful entry through a WOS by interacting with consulting and research agencies and by employing skilled local employees, among other things. As a result, the inclusion of micro institutions, in the form of
market intermediaries, into the theoretical framework, as advocated by Khanna and Palepu (2010), is warranted and of significant importance. It uncovers pertinent determinants, which would be left unidentified through a macro institutional analysis only.

In all, the theoretical framework held up well – despite the need for minor adjustments. All of the theoretical propositions with regard to firm resources and market attractiveness were further strengthened by the findings. A vital aspect of the theoretical framework is the multi-theoretical approach to entry mode choice and the interdependencies between the determinants. Both the broad approach and the interdependencies were substantiated by the findings, and support Meyer, Estrin et al.’s (2009, p. 76) statement that the “exploratory and predictive power of institutions is further enhanced when the institution-based view is integrated with the resource-based”. Among other things, the interviewees stressed the importance of size and experience in handling institutional voids and the mitigation of formal institutional voids through effective market intermediaries. As a result, the weight of each determinant on entry mode choice is contingent on the rest of the proposed determinants (Brouthers, 2013). The effect of culture, for example, was shown to be divergent depending on the resources of the firm in question.

The novel findings and the inconsistencies between the theoretical propositions and the empirical findings – and thus the potential capability of the thesis to extend the existing literature – are to be found within the institutional determinants. The effect of formal institutions, much like informal institutions and the cultural distance paradox (Brouthers & Brouthers, 2011), was found to have a divergent effect on entry mode choice as opposed to a higher likelihood towards a JV, as proposed by the theoretical framework (Slagen & Tulder, 2009). Weak rule of law and control of corruption increased the risks connected with JV, while a local partner would potentially be better at circumventing the voids connected to political stability, government effectiveness and regulative quality. Likewise, and most importantly, the findings indicate that market intermediaries play a vital role with regard to entry mode choice, as these intermediaries determine the stickiness or tacitness of the knowledge possessed by local partners. Consequently, the question of entry mode choice is not directly related to the size of institutional voids, per se, but rather how these voids affect foreign firms in comparison to local firms. An even playing field for all firms, regardless of entry mode, beyond an initial learning curve, could therefore still be applicable in a market with significant institutional voids – given the presence of effective market intermediaries providing the necessary market knowledge.

The empirical effect of the determinants on entry mode choice is listed in the table below. The influence of institutions, highlighted in bold, constitute findings not directly pinpointed by the theoretical propositions.
7. IMPLICATIONS

Compared to the literature review, expected and unexpected results were found in the empirical data. Based on the multiple case study, a multi-theoretical approach was warranted, while a number of factors and interdependencies were detected, which potentially have not been explored in the existing literature. This chapter discusses the theoretical and practical implications of these findings.

7.1. Theoretical Implications

The findings of this study indicated that institutional voids, per se, do not constitute a liability of foreignness. If all firms – regardless of nationality – face the same voids after overcoming an initial learning period, the inclination to internationalise through a JV declines. Consequently, the appeal of a JV or an acquisition to reduce institutional voids is contingent on the stickiness of the knowledge possessed by local firms to handle these voids (Hennart, 2009; 2012). The easier and quicker this knowledge can be accumulated through non-equity means, the less inclined investing firms are to utilise a cooperative entry mode. Here, the findings indicated that market intermediaries occupy a vital role as purveyors of market specific knowledge. Interaction with functioning market intermediaries decreases the dependence of foreign firms on local partners, as these intermediaries are potentially capable of transacting the information necessary to circumvent or reconcile institutional voids (Khanna & Palepu, 2010). As a result, effective market intermediaries, to a certain degree, substitute local firms when it comes to market-specific

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**Table 6: Revised propositions**

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<tr>
<th>Determinant</th>
<th>Entry mode influence</th>
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<tbody>
<tr>
<td>Market</td>
<td>Market attractiveness</td>
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<tr>
<td>Firm resources</td>
<td>Size and international experience</td>
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<tr>
<td></td>
<td>Knowledge intensity</td>
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<tr>
<td></td>
<td>Resource augmentation</td>
</tr>
<tr>
<td>Institutional voids</td>
<td>Formal</td>
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<td></td>
<td>Informal</td>
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<td>Labour market</td>
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<td>Capital market</td>
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</table>
knowledge. Hence, strong market intermediaries increase the propensity for foreign firms to establish a WOS.

The findings of this thesis support the notion that entry mode choice is influenced and driven by numerous internal and external factors and that a multi-theoretical approach to entry mode choice is needed in order to capture the nuances and interdependencies between these determinants (Brouthers, 2002; Brouthers et al., 2008; Morschett et al., 2010). Consequently, market attractiveness, the state of institutional voids, firm resources and market intermediaries should all be taken into consideration when pinpointing entry mode choice – especially in institutionally volatile markets and when dealing with smaller firms (Nakos & Brouthers, 2002; Meyer & Nguyen, 2005). In the case of cultural distance, for example, the findings indicated that experienced firms are more prone to the risk of opportunism due to the state of their competitive advantage and prefer to internationalise through a WOS mode of entry in order to reduce internal uncertainty in culturally different markets. Smaller firms, on the other hand, lack the resources to effectively deal with both internal and external uncertainties and potentially face a lower risk of opportunism and thus are more inclined to choose a JV.

With regard to the case firms, strong firm resources seemed to be the main determinant of entry mode choice, as the case firms were all present in India through a WOS due to the need for control and the need to reduce opportunism and sub-standard quality. As a result, firm resources dictate the capability of a sole venture, and the stronger the internal resources of a firm, the greater the need and financial leeway to protect its competitive advantage through a WOS.

Suggestions of grouping formal institutions in one overarching determinant (Slangen & Tulder, 2009) did not match the findings of this thesis. The findings indicated that the individual dimensions constituting the governance indicators have varying effects on entry mode choice. Rule of law and corruption increased the risk of internal uncertainty through opportunist behaviour and potential damaging acts by partners; consequently spawning a WOS. On the other hand, political stability, governmental effectiveness and regulative quality could increase external risks and bureaucracy and thus spur a JV, as local firms possess the knowledge to manoeuvre these voids. As a result, the findings indicate that these determinants should be analysed in isolation.
7.2. Implications for Practitioners

Overall, the approach of the framework appears to provide important insights for managers in evaluating the pros and cons of entry modes, as it highlights a number of factors that should be taken into consideration when entering an institutionally weak market. First, institutional voids affect the costs and challenges of entering a market and directly dictate the capability of transferring firm resources to the host market. Consequently, market attractiveness and firm resources are potentially limited by these voids. In this regard, an analysis centred on index-based macro institutions is not adequate in covering the institutional landscape, as specific market intermediaries can either dampen or amplify the state of institutional voids – thereby necessitating a broad institutional approach. Likewise, the effect of institutional voids on the optimal entry mode is not unanimous across markets and firm resources – there is no “one size fits all” solution (Brouthers & Nakos, 2004) – hence, firms need to weigh internal idiosyncrasies with the external environment before deciding upon an entry mode.

Consequently, a preliminary step concerning entry mode choice for Danish firms within the water sector in India is to invest time and resources to analyse the market with regard to institutional voids and market intermediaries; such an analysis could likewise have an effect on initial estimations of market potential. Second, contact to market intermediaries, such as consulting agencies and foreign embassies’ trade councils, should be established, where the cost and the capacity of these intermediaries in providing the market knowledge the firm lacks is assessed. Third, on the basis of firm resources, the role of market intermediaries, market potential and institutional voids, the firm needs to consider how it values the trade-offs of the different entry modes within a given market, i.e. the acceptability of risk, the need for local partner knowledge and the resource commitment threshold. The strategic importance of entry mode choice (Dunning & Lundan, 2008), coupled with the high costs and time-consumption of changing an established entry mode (Brouthers & Hennart, 2007), makes establishing a proper entry mode the first time around of utmost importance.

7.3. Limitations

Methodological constraints and shortages from the research design constitute the main limitations of this thesis. With regard to the research design, a multiple study approach hinders universal validity of the findings, which are restricted to analytical generalisation or theory development. Furthermore, four additional factors potentially prevented better support of the findings. These are: (1) the sensitivity of the
questions asked, e.g. corruption, which could lead to biased responses (Yin, 2011); (2) the comparatively small number of interviews, of which the interviewees were mostly general managers and not directly involved in strategy formation; (3) the inclusion of only three case firms (Ekeledo & Sivakumar, 2004); (4) the inclusion of both manufacturing and service firms as case firms, which could be problematic, as studies have shown that these companies differ with respect to entry mode choice (Brouthers & Brouthers, 2003).

This thesis focused on three entry modes; namely WOS, JV and acquisitions. Based on the interviews, the case companies utilised a number of different entry modes, such as alliances and non-equity partnerships with public institutions. Furthermore, a number of the interviewees stressed a distinctive Danish way to form consortia, where smaller firms are invited to projects in foreign markets on behalf of the larger firms (CF2,2, CF2,1). As a result, there exists a plethora of entry modes which firms utilise in order to navigate the markets (Brouthers & Hennart, 2007). Addressing these, however, was beyond the scope of this thesis, and hence the thesis was not able to capture these nuances.

The findings indicated that sub-national institutions were of utmost importance when internationalising to India due to institutional differences and practices at state levels. This has likewise been reflected in the literature, where Meyer and Nguyen (2005), among others, stressed the importance of looking at sub-national institutions in countries with significant regional variations. Due to the heterogeneity of the Indian market, a study taking these regional institutional variations into account could potentially more adequately capture the effect of institutions on business practices and entry mode choice.

7.4. Implications for Future Research

The thesis has generated a number of propositions and potential theoretical contributions. The analytical generalisability of these findings could be enhanced by conducting additional studies. First and foremost, additional case studies should examine the proposition that institutional voids, per se, are not directly entry mode determinants, but focus should rather be on market intermediaries, as these, through their ability to externally reduce or navigate institutional voids, determine the level of internal and external uncertainty. This could subsequently, and in conjunction with firm resources, determine firms’ optimal entry modes. Therefore, the question is whether institutional and cultural distance is manageable and thus more likely to be dealt with through a WOS if well-functioning product and labour intermediaries are present in the host market.
The proposition that the individual dimensions constituting formal institutions differ in their effect on entry mode choice could also be of interest to study further. Would firms be more inclined to enter a market through a WOS if the weight of formal institutional voids in the host market are primarily located within corruption and the rule of law, and not within political risk and governmental efficiency, for example?

Finally, it would be interesting to study asset specificity and the cultural distance paradox from an interdependent, multi-theoretical standpoint. If asset specificity is contingent on both internal and external factors, then the effect of institutional voids must be weighed against firm resources and the ability to navigate these voids without the assistance of local partners. Thus, asset specificity is not categorisable based on firm resources or the institutional environment in isolation – researchers need to weigh both factors. In a same manner, how does the effect of cultural distance on entry mode choice change when researchers take into account the role played by market intermediaries in mitigating this distance without the need for an equity mode of entry?

8. CONCLUSION

Inspired by Khanna and Palepu (2010), the overarching aim of this thesis has been to examine whether an expanded institutional approach to entry mode choice, where institutions and especially market intermediaries are integrated into a multi-theoretical approach, sheds new light on the inconsistencies of entry mode determinants in past studies. This multi-theoretical approach is motivated by and acts in response to Canabal and White (2008) and Brouthers (2013), among others, who advocate the development of integrated frameworks on the joint impact of TCT, RBV and IT factors with regard to entry mode choice, as “…even after decades of research on this issue, the results derived from empirical research provide no clear consensus regarding the effect of certain variables” (Morschett et al., 2010, p. 61). This spurred the following research question:

- How does the institutional context affect entry mode choice for Danish firms within the Indian water sector?

Through a multiple case study based on eight interviews with case firms and industry experts within the Danish water sector in India, the findings were in line with most of the theoretically identified determinants of entry mode – such as the need for a multi-theoretical approach and the interdependence between firm
resources and the external environment. As expected, market attractiveness and strong firm resources were found to increase the propensity to establish a WOS, while the effect of formal and informal institutions on entry mode choice was more difficult to assert. A vital, and potentially novel, aspect of the findings was the identified role played by market intermediaries in mitigating the institutional voids present in the market. Consequently, the findings indicate that institutional distance or institutional voids, per se, are not a predominant determinant of entry mode choice. The stickiness or tacitness of the knowledge needed to externally overcome or navigate these voids, in conjunction with firm resources and the market attractiveness, decides entry mode – market intermediaries, as purveyors or providers of pertinent market knowledge, are vital in this regard. As a result, firms are able to more effectively deal with significant institutional voids externally, and hence more inclined to enter through a WOS, if (1) the firm possesses the necessary resources to overcome an initial steep learning curve as a result of institutional voids and the liability of foreignness, and (2) market intermediaries, in the form of, inter alia, qualified labour pools and the presence of market consultancies, are able to aid the firm in the initial process.

The insinuated role of market intermediaries and the interdependencies between firm resources and the external environment in entry mode choice could, if verified further, lead to significant theoretical and practical implications. First and foremost, researchers and practitioners need a broader scope when examining entry mode choice, as a traditional view of composite indices – such as Hofstede’s cultural distance (Hofstede & Minkov, 2010) and World Bank’s governance indicators (Kaufmann et al., 2013) – or firm resources in isolation becomes insubstantial. Consequently, studies on asset specificity, often operationalised through measures such as R&D and external uncertainty, need to analyse how market intermediaries, in conjunction with firm resources, affect the specificity of an asset and the corresponding effect on entry mode choice.

In sum, this thesis provides support to a holistic approach to entry mode choice, where several theoretical perspectives are integrated, while proposing a decisive effect to market intermediaries on entry mode choice in this regard.
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