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Exploring The Determinants Of The Choice Between Alternative Market Entry Strategies In
The Emerging Market: The Middle East Region

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Summary

This paper addresses two of the strategically key questions of market entry strategies in emerging markets: how to enter considering the local institutional environment, and what are the challenges for MNEs in the Middle East region. Moreover, we explore the literature on the determinants of the entry modes strategies in the emerging market and to identify the future research themes in the arena. The research applies a systematic literature review (SLR) to address the research objectives, as well as primary research will be conducted through using a focus group method with local and international players involved in the operations in the region. The initial findings from the SLR conducted show the needs for further research in exploring how and what to consider in the choice of entry modes for the MNEs in the region. In addition, there is a clear lack of empirical studies in the region to address the research area.

Track: Organisational Transformation Change and Development

Key words:

Market Entry Strategies, Middle East, International Management, Strategic Decision Making, Institution, MNEs, Local Partners, Emerging markets, International Business.

Word count: 1989 (excluding tables and references)

Body of paper

Introduction

International entry mode strategies are vital to the foreign growth of businesses (Chiao et al., 2010; Hennart and Slangen, 2014; Meyer et al., 2014) as they are considered as a reflection of multinational businesses' capabilities to get into foreign markets, enhance their knowledge and skills to improve local responsiveness, build good marketing strategies in host markets (Surdu, et al, 2018). In this paper, the determinants of the MNEs' choice between alternatives entry modes strategies will be addressed in the "Middle East" region.

The Middle East is normally related to a socio-political and cultural area that does not have rigid borders (Budhwar & Mellahi, 2007). The phrase "Middle East" was initially introduced in 1901 by U.S. admiral Alfred Mahan (Ali, 1999), before it was implemented in legitimate correspondence of Britain (Ali, 1999). Yet, many of the world's largest MNEs take the Middle East as a home. Most of each benefit from a constant profitability from their operations in the territory (Kavoossi, 2000). In fact, the list of MNEs operating in the region are seen in the Fortune 500 record.

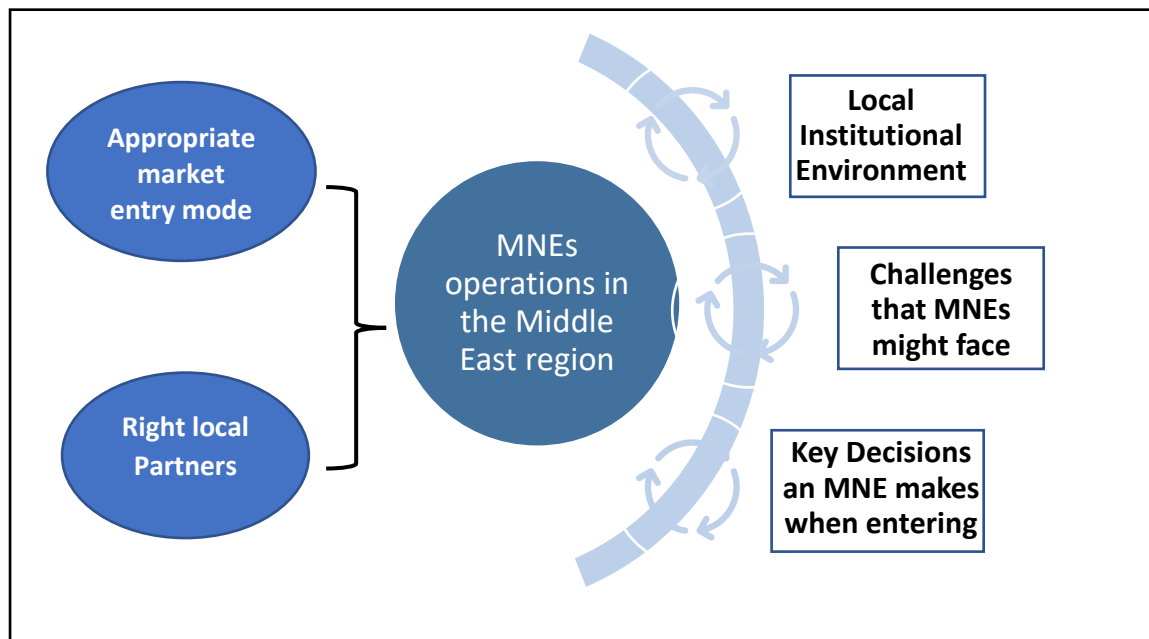
Middle Eastern governments have recognised that there are only few alternatives but to open their doors to MNEs (Mellahi, Guermat, Frynas, & Bortmani, 2002). Mellahi, Demirbag, and Riddle, (2011) emphasis that not much is known on management practices by MNEs in the region. Hence, this research aims to find potential answers for some of the following questions: Do MNEs implement home countries practices? Do they adapt their practices to host markets? How do MNEs enter the area? What are the most suitable market entry strategies to get into the Middle Eastern markets?

Moreover, given the essential role played by nonmarket players, for instance: national institutions and local government in shaping the business environment there is a need for more research to bridge the existing gap in exploring how and why the factors of the MNEs' choice between alternatives entry modes strategies are considered in the Middle East region. Also, to lighten the settings under which national institutional activities contribute to MNEs strategic competences that create a competitive advantage in the host country market (Mellahi, Demirbag, and Riddle, 2011).

Mainly, to address the main aims of the research, this paper will be based on the following three central questions (Figure 1):

- How to enter the Middle Eastern markets considering the local institutional environment?
- What are the challenges and barriers that MNEs or FDI might face to operate in the Middle East region?
- One of the essential decisions an MNE makes when accessing the Middle Eastern market are the selection of local partners, and suitable mode of entry; hence this paper addresses how and what are the determinants of this selection, and any particular attention needs to be paid for the Middle East region?

Figure 1: The research Conceptual Framework



Source: developed by the authors based on the purpose of this research

How to enter considering the local institutional environment

For this research, the used definition of multinational enterprise (MNE) is an enterprise that encounters in foreign direct investment (FDI) and owns or, somehow, influences value-added activities in more than one country (Dunning, and Lundan, 2008). This understanding is extensively accepted in business and academic sets by data-collecting organizations for instance the Organisation for Economic Co-Operative (OECD), UNCTAD's Division on Investment, Technology and Enterprise Development (DITE).

Many researchers have widely considered the role of the institution, ownership and industry factors in determining the MNEs' internationalisation choices (Cui and Jiang, 2012, Li, 2018 and Buckley, 2018). According to Agarwal and Ramaswami (1992) determinants of market entry strategies are summarised in ownership, location and internalisation advantages. In this sense, the institution was found to be the main determinant of entry mode in emerging markets (Meyer et al., 2009).

Hennart et al, - (2015) highlighted that the local complementary assets and the degree of industry concentration play a vital role in American MNEs choices between a joint venture and a wholly owned subsidiary to enter an emerging market such as Brazil. Meyer et al., (2009) argued that host country with a weak institutional environment makes MNEs prefer to use a joint venture entry mode to access strategic resources in emerging markets. Similarly, Meyer and Nguyen, (2005) stated that sub-national institutions substantially influence the choice of entry mode and location.

MNEs' resources and capabilities are another critical factor affecting entry mode strategies (Dunning, 2000). Meyer et al., (2009) found that in a robust institution environment, the local tangible resources will not affect the entry mode choice. However, Peng and Heath (1993)

stated that in a weak institutional setting, such as in emerging economies, networks and relationships with other companies, agents of distribution channels and local authorities are considered strategic assets in emerging economies.

Table 1 demonstrates the distribution of empirical articles per journal and thematic area. In line with this research, Surdu, et al, (2018) have conducted systematic LR and one contribution was highlighted in the area of choice between market strategies (30%) the majority focus on the rationale for choosing between fully owned independent entry modes and equity alliances. The remaining empirical studies focus on motives for EMMs' M&A strategies (13 studies). This clearly indicates the lack of empirical studies conducted in the Emerging markets, and the authors underline this point and in particular in the Middle East region.

Table 1: Distribution of empirical articles per journal and thematic areas

Journals	Empirical studies ^a	Motives for specific entry mode selection				
		International alliance formation	Cross-border M&As	Choices between entry mode strategies	Timing and sequences of entry mode strategies	Performance outcomes of entry mode strategies
		(6)	(13)	(19)	(20)	(11)
<i>JWB</i>	(15)	1	4	5	3	2
<i>IBR</i>	(11)	–	3	4	2	3
<i>APJM</i>	(9)	–	1	1	4	3
<i>IMR</i>	(5)	–	–	2	4	–
<i>MIR</i>	(6)	2	1	2	1	–
<i>JIBS</i>	(6)	–	2	4	–	2
<i>JIM</i>	(5)	–	2	1	2	–
<i>IJoEM</i>	(4)	–	–	–	4	–
<i>JoIM</i>	(1)	1	–	–	–	1
<i>AMJ</i>	(1)	1	–	–	–	–
<i>OS</i>	(1)	1	–	–	–	–

Notes: ^aWe identified 64 empirical studies. The five studies (two in *JIBS*, one in *IBR*, one in *IMR* and one in *JoIM*) that discussed more than one topic were coded into multiple thematic areas simultaneously

Source: (Surdu, et al, 2018)

The challenges/barriers that MNEs might face to operate in the Middle East region

Despite the excellent market potential for MNEs in the region, difficulties to foreign direct investment still occur in most Middle Eastern countries (Mellahi, Demirbag, and Riddle, 2011). Apaydin, (2009) highlights that while the FDI has increased in the region comparing to other developing regions of the world the Middle East appears as one of the highly underperforming regions. He states that the region's share in the overall world FDI inflow was nearly 8% in 2007. Countries in Gulf region (i.e., Kuwait, Qatar, UAE, Bahrain, Oman, and Saudi Arabia) is the minimum performing in the region. These countries were able to attract only a small percentage of total FDI inflow (2.3% of total world inflows in 2007) (Hussein, 2009).

However, the majority of remaining FDI invested in the region in countries that removed entry barriers and create an encouraging environment for foreign investment such as Egypt, Tunisia, and Turkey attract 34% of total FDI investments to the region. They liberalised their FDI regulations and removed most of FDI associated entry barriers (Mellahi, Demirbag, and Riddle, 2011). In addition, the market size also is considered as a key in FDI inflows; the larger is the market size, the more FDI inflows are attracted. On the other hand, Rogmans, and Ebbers (2013) highlight that countries with rich oil and gas resources are more likely to have policies and institutions that constrain FDI.

In the majority of Middle Eastern countries, the most prevalent entry modes are joint ventures and franchising, while wholly owned subsidiaries are notably limited (Mellahi, Demirbag, and Riddle, 2011). For instance, according to Hanson, Raymond, Mataloni, and Slaughter' (2001); the number of wholly owned affiliated of American MNEs in the Middle East declined from 267 affiliates (1.8%) in 1982 to 233 affiliates (1.1%) in 1998, and the number of most-owned foreign affiliates decreased by 4.7% between 1982 and 1998. It is noted that the small quantity of entry via wholly owned affiliates shows the need for local partners.

The essential decisions an MNE makes when entering the Middle Eastern market

Regardless of the drivers for entering the Middle East region, one of the key decisions an MNE makes when accessing the Middle Eastern market are the selection of local partners, and suitable mode of entry (Mellahi, Demirbag, and Riddle, 2011). Considering the market failures and institutional voids in the Middle East (Mellahi, 2007), relationship with prominent business parties or political performers is a key condition for successful operations in the region.

Mellahi, Demirbag, and Riddle, (2011) highlighted that relationship with the right partner is not only a protection policy that safeguards the MNE against opportunism from controlling players and institutions, but it also often affords the MNE with privileged treatment, and access to rare and highly valuable political resources.

The joint venture entry mode is used to access many resources in a weak institutional environment (Meyer et al., 2009). However, Mellahi, Demirbag, and Riddle, (2011) stated that in the Middle East region, MNEs are more open to all entry mode choices, from export to wholly owned subsidiaries. Still, the most preferred entry modes are franchising and joint ventures. As a result, according to Mellahi et al, (2011) the number of MNEs subsidiaries fell by 0.7% between 1982 and 1998. Moreover, the need for a local partner in the Middle East region decreased the number of foreign subsidiaries.

Mainly the literature on management in the Middle East concentrates on Arab and Islamic workplace values (Mashlah and Pryce, 2022; Mellahi & Budhwar, 2010; Riddle, Ralston, Mellahi, Butt, & Dalgic, 2007) and ethics (Rice, 1999) and management culture (Ali, 1995; Mellahi, 2003), particular management functions for instance HRM (Budhwar & Mellahi, 2006, 2007), and marketing (Razzouk & Al-Khatib, 1993; Melewar, Turnbull, & Balabanis, 2000), and past case studies of MNEs in the area (Blaszczyk, 2008; Godley & Shechter, 2008).

Haj Youssef and Teng (2021) highlighted that every country in the Middle East has its own characteristic set of factors that require attention into details from foreign firms before implementing entry strategies. Furthermore, investors need to take into their accounts the market entry determinants of that territory including its environmental risk, market size, readiness to trade, and natural resources capabilities (Rogmans and Ebbers 2013). Other scholars added further factors such as the GDP growth, R&D expenditure, legal framework, country risk, domestic investment among others (Moosa and Cardak 2002).

Importantly, Mashlah, (2017) clarifies that organisations in the Arab countries face many challenges in the daily management and leadership practices. Even though this body of literature is enlightening, it does not entirely describe the challenges facing MNEs in the region (Mellahi, Demirbag, and Riddle, 2011).

Indeed, this highlights the significance of this research, as it aims to explore how and what should be considered with regards to the local institutional environment when entering the Middle Eastern markets. Furthermore, this study will contribute to the development of the determinants of choice in deciding the right market entry mode strategies arena. In fact, both national and international management should benefit from the findings of this research in what to be considered for the MNEs to operate in the Middle East region.

Research Methods

This study employs two main methods in order to achieve the main research aims as follows:

- A systematic literature review (SLR) will be conducted between 2003 to 2023, to explore further in the three key questions mentioned earlier in this paper. It is useful to mention that scanning related academic areas primarily to check for other study that already exists, as the evaluation of the number of current research is helpful to define and create clear purposes as well as specific question (Snyder, 2019). Thus, a snowball process is applied to help in grasping more knowledge from additional articles, which are useful for the authors to develop research objectives (Paschou, 2020).
- The systematic literature review (SLR) will be processed through review principles considering both inclusion and exclusion criteria (see the table below) followed by paper collection review method.
- as well as primary research will be conducted through applying a focus group: a qualitative research method in which the authors conduct a collective interview of typically four to six local business partners and international managers who are involved in the operations of MNEs in the Middle East region.
- Moreover, primary data collection can be beneficial to collect up-to-date data to the support or opposite existing findings from the systemic literature review in the future. Additionally, limited results are determined with regard to pandemic and its impact on the MNEs operations in the region as a few numbers of papers are published, and primary data is necessary in the future.

Table 2 Inclusion and exclusion criteria

I/E	Criteria	Criteria explanation
Exclusion	Published Date (PD)	A paper was published before 2003 unless is accepted via a snowball process.
	Search engine reason (SER)	A paper only has its title, abstract, and keywords. in English but the full text is in other language expect a paper with unique contribution
	Without full text (WF)	A paper without full text to be reviewed

Inclusion	Non-related (NR)	NR-1: A paper is not a constrained defined academic article. For instance, conference reviews, company reports, non-academic books, business news, official report except a handful of books and conference papers with outstanding contribution NR-2: A paper is not related to research area, but is able to be found with key searching words
	Loosely related (LR)	LR-1: The title is related to key searching words, however, the text is not on the same track, or the statement is not clear
	Partially related (PR)	PR-1: A research is related to some parts of Market entry mode strategies in the emerging market in the Middle East region. PR-2: A research explains the challenges that MNEs face to operate in the region. PR-3: A research explains the determinants in choosing the local partners as well as the appropriate market entry mode. PR-4: A research partially explains the role of the factors in making strategic decisions in how to enter considering the local institutional environment, but the main theme is not PR-5: A research explains the impact of choosing the right local partners on the success of the MNEs operations in the region, but the main theme is not
	Closely related (CR)	Paper's research efforts are specifically and explicitly dedicated to research aim

Further Development

This research is currently in its early stage. Despite this, the authors have found a clear strategy to facilitate the exploration of new developments and trends in the chosen field. The plan to conduct systematic LR should contribute to this emerging area of scholarly work, as well as it opens the doors for more empirical studies to be conducted in the Middle East region in how and why MNEs can be successfully operate in the host market.

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