THE EFFECT OF INVESTMENT SIZE AND MARKET POTENTIAL ON CHOICE OF ENTRY MODE IN MYANMAR

VIACHESLAV BAKSHEEV

A THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE GRADUATE SCHOOL

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Abstract

The objectives of this study were to (1) examine the effect of investment size on firms' choice of foreign direct investment entry mode in Myanmar; and (2) examine the effect of market potential on firms' choice of foreign direct investment entry mode in Myanmar.

Research Methodology**:** H_1 was: "there is a positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode". H_2 was: "there is a positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode". The entire population consisted of 385 companies directly invested in Myanmar since 1989 till 2011. The target population was determined as 206 companies for those the data was available. Binomial logistic regression was applied to test the above hypotheses.

Research findings were as follows: (1) H_1 was not proved. An independent variable of investment size hasn't made a unique statistically contribution to the model, its significance value wasn't less than .05. (2) H_2 was proved. Significance values of both measures of market potential were less 0.05 with negative B coefficients.

Keywords: Myanmar, Foreign direct investment, Entry mode.

ACKNOWLEDGMENT

The work contained in this thesis represents the accumulation of two years of my work in Thailand and Myanmar. I would like to express my deep gratitude to my advisors Dr. Ronald Vatananan and Professor Michael Haseley. It was a great privilege and honor to work and study under their guidance. I would like to thank them for their supports, patient guidance, enthusiastic encouragement and useful critiques of this research work.

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Viacheslav Baksheev

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CHAPTER 1
INTRODUCTION

The Republic of the Union of Myanmar became an independent state on the 4th of January, 1948. Before the World War II Myanmar was one of the most developed countries in South East Asia with Rangoon University as the major education center in the region. During the World War II the great battles between the British and the Japanese armies took place in Myanmar. As the result the Myanmar's economy was destroyed and majority of population became poor.

Myanmar has not become a member of the Commonwealth unlike other former British colonies and didn't rely on foreign aid as much as neighbor countries. After the declaration of independence the leftist government nationalized main British enterprises in the country such as Burmah Oil and the Irrawaddy Flotilla Company, and then it nationalized agricultural land (Maung Maung, 2012). The government adapted central planning system something similar to the Soviet Union and the Council for Mutual Economic Assistance countries. However unlike other countries in the region Myanmar did not receive either the United States' aid as Thailand and Malaysia, or the Soviet Union's aid as Lao PDR and Vietnam.

The result of isolationist policy was that production and export of major products like rice and mineral recourses dramatically fell. The country suffered from the civil war between the central government and communists, and insurgency in the territories mostly populated by ethnic minorities such as Shan State, Kachin State. On the 2nd of March 1962 Myanmar armed forces took political power in the country. In 1974 Myanmar adapted the new Constitution and a new political and economic model: the Burmese Way to Socialism program was introduced. The main features of a new political and economic system were: one party rule of the Burma Socialist Program Party; socialist economy; and socialist democratic state structure (Maung Maung, 2012). Myanmar suffered from the economic stagnation and unemployment, demonetization of the larger currency notes in September 1987 had devaluated people's savings (Maung Maung, 2012). In 1987 Myanmar was admitted to least developed countries' list by the United Nations.

In 1988 Myanmar began its transition to a market economy. The military government allowed private sector businesses to engage in foreign trade, border trade, and foreign companies to invest in Myanmar (Kudo & Mieno, 2007). In November 1988 the Foreign Investment Law was enacted. This law allowed 100% foreign ownership of Myanmar enterprises, remittance of profits by foreign investors and introduced a set of investment promotion measures such as tax and tariff exemptions. The new policy was able to bring huge amounts of foreign direct investments in the country. However the growth of foreign direct investments and gross domestic product was hampered by the sanctions imposed by the United States, the European Union and some other nations. Japan has not officially imposed any sanctions on Myanmar but virtually suspended intergovernmental cooperation and discouraged private companies to invest in Myanmar (Kudo & Mieno, 2007). The major investors in Myanmar during the period of international sanctions were Asian countries: Singapore, the People's Republic of China and Thailand, as shown in chapter 4.

The new Constitution of 2008 promotes Myanmar's transition from the military government to the democracy. In March 2011 the military government was replaced by the civilian government with the head of the President U Thein Sein. Western countries and Japan reset its cooperation with Myanmar. Companies from the United States, the European Union and Japan could again freely invest and do business in Myanmar. The new Foreign Investment Law of November 2012, which replaced the previous law of 1988, offered better incentives to foreign investors: foreign investors can lease land for 50 years (previously 30 years), with two possible extensions of 10 years each; a five-year tax holiday (only three years previously); and protection of foreign-owned enterprises from nationalization.

Political and economic reforms since 2011 boosted business activities, the foreign and domestic investments, exports of commodities, primarily natural gas and agriculture products, and private consumption. Myanmar became one of the fastest growing economies in the world.

The country became one of the top destinations for the international investors. The market was characterized by the high market potential on the one hand and the high country risk on the other hand. Most of entrants were large multinational companies. No study on choice of entry modes in the extremely high risk market, like

Myanmar was found. Hence it's very important to analyze what factors and how influence foreign investors to make decision on an entry mode in Myanmar. The purpose of this study is to analyze the effect of the ownership and the location advantage factors on the choice of entry mode in Myanmar.

1.1 Statement of the Problem

Firms that want to directly invest in Myanmar need to make important choice between sole venture and joint venture entry modes. There are two possible entry modes for foreign direct investments: sole venture or wholly-owned subsidiary and joint venture. Foreign investors may make decisions on entry mode choice based on ownership advantages, location advantages and internalization advantages (Dunning, 1980).

Previous studies have identified a number of factors that influence the choice of an entry mode for a selected target market. The ownership advantage or firm specific factors: firm size, multinational experience, technological intensity and other factors (Agarwal, 1992). The location advantage or country-specific factors are market-potential, country risk, socio-cultural distance and other factors (Kogut, 1988). Internalization advantage factors are contractual risk and some other factors (Agawal, 1992).

An important gap in the empirical literature is the issue of how firm-specific and country-specific factors influence firms' choice of foreign direct investment entry mode in Myanmar. Since 2011 Myanmar became very popular destination for foreign direct investment and all these foreign firms would need to make a decision on entry mode choice. However no studies on entry mode choice in Myanmar were found, therefore it's very important to produce such a study now and provide its results to business and academic professionals.

1.2 Objective of the Study

In order to fill the current gap in empirical literature regarding entry mode choice in Myanmar, the author would like to validate the modified Dunning's model in a new region based on new market data. The model of this study includes two

independent variables or predictors: the size of investment and the market potential and one dependent variable: entry mode. The data set of this study will include companies that directly invested in Myanmar since 1989 to 2011 and still excised as in 2011.

As provided in the Table 1.1 the research questions of this study are:

1) To examine the effect of investment size on firms' choice of foreign direct investment entry mode in Myanmar. As mentioned above the size of investment is an ownership advantage factor, which demonstrates financial power of a firm. The larger ownership advantages would cause firm's likelihood to establish a sole venture mode (Agarwal, 1992). Therefore it is logically to assume that the larger size of investment would increase firm's likelihood to choose a sole venture mode over a joint venture mode.

2) To examine the effect of market potential on firms' choice of foreign direct investment entry mode in Myanmar. As mentioned above the market potential is one of the location advantage factors that provide information on commercial attractiveness of a particular market or a country. The larger market potential, the larger firm's likelihood to choose a sole venture mode (Agarwal, 1994). It's fair to assume that the principle can be applied for the Myanmar market.

Table 1.1 Research Questions and Hypotheses

Research Questions and Hypotheses	
Research Questions	Hypotheses
RQ_1 Is there a relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode?	H_1 There is a positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode.
RQ_2 Is there a relationship between the market potential and firm's likelihood of choosing a sole venture entry mode?	H_2 There is a positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode.

1.3 Theoretical Framework

The figures 1.1, 1.2 and 1.3 presented theoretical frameworks used in previous studies.

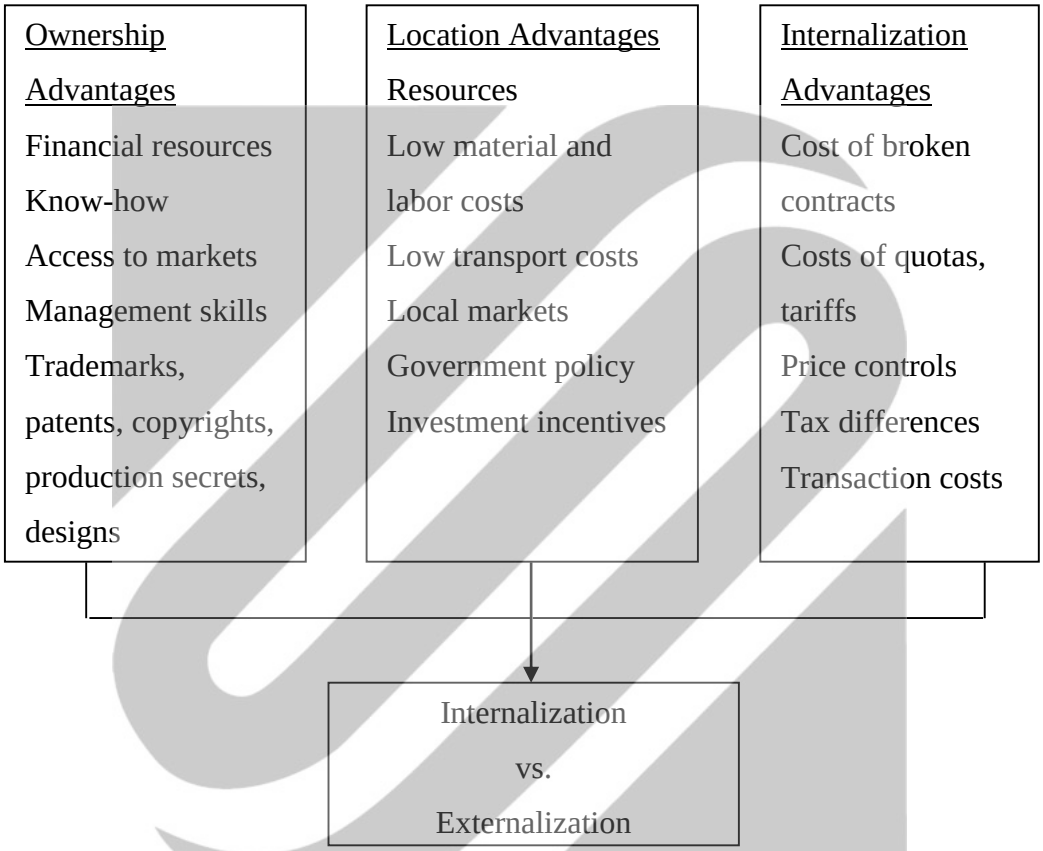

Figure 1.1 Theoretical Framework 1

Source: Dunning, 1980: 13

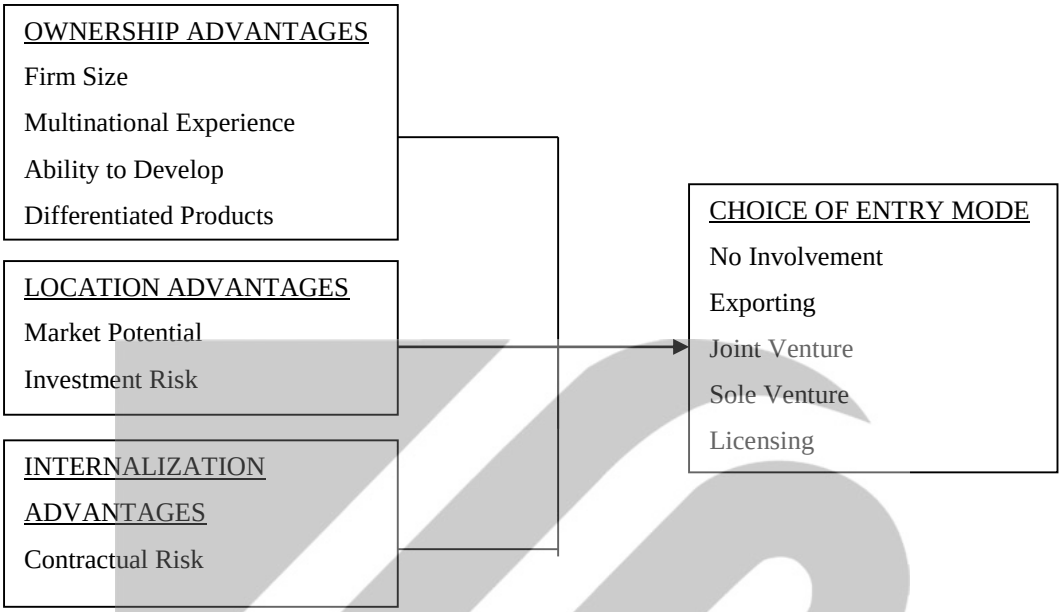

Figure 1.2 Theoretical Framework 2

Source: Agarwal, 1992:5

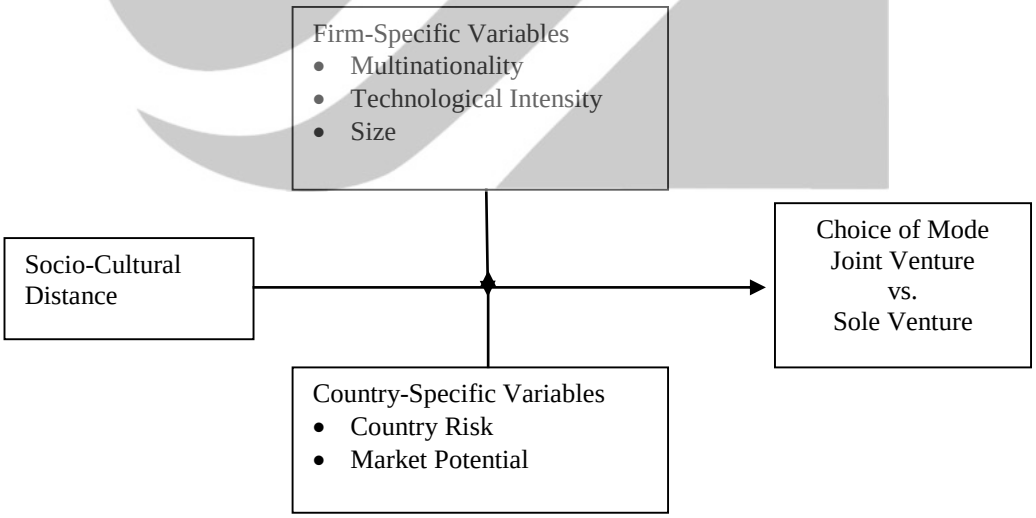

Figure 1.3: Theoretical Framework 3

Source: Agarwal 1994: 65

Dunning's theory states that firms will choose the most appropriate form of entry into a foreign market by considering their ownership advantages of a firm, the location advantages of a market (country), and the internalization advantages of integrating transactions within the firm (Dunning, 1980). A firm that possess competitive advantages would invest in a foreign country if this country more attractive for business operations than a country of a firm. When a company has strong enough ownership advantages to invest in other countries it needs to decide whether to externalize or internalize these advantages, in other words to invest in foreign market directly using equity entry modes or indirectly using non-equity modes.

1.4 Significance of the Study

As mentioned above Myanmar became very popular destination for foreign direct investments. As shown in the Figure 1.4 and the Figure 1.5 the Myanmar's FDI inflow in 2013 was more than 4 billion dollars and the GDP growth rate was about 8 per cent. Therefore this study may be very interesting for business people to help them to structure their investments in Myanmar.

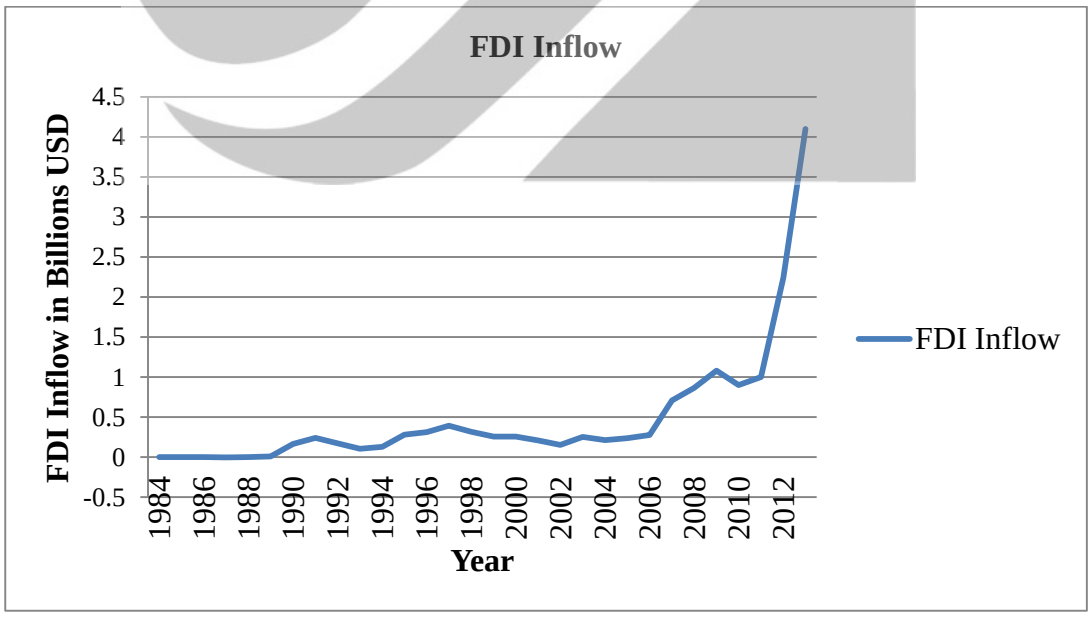

Figure 1.4 Foreign Direct Investments Inflows per Year

Source: the Asian Development Bank: Online

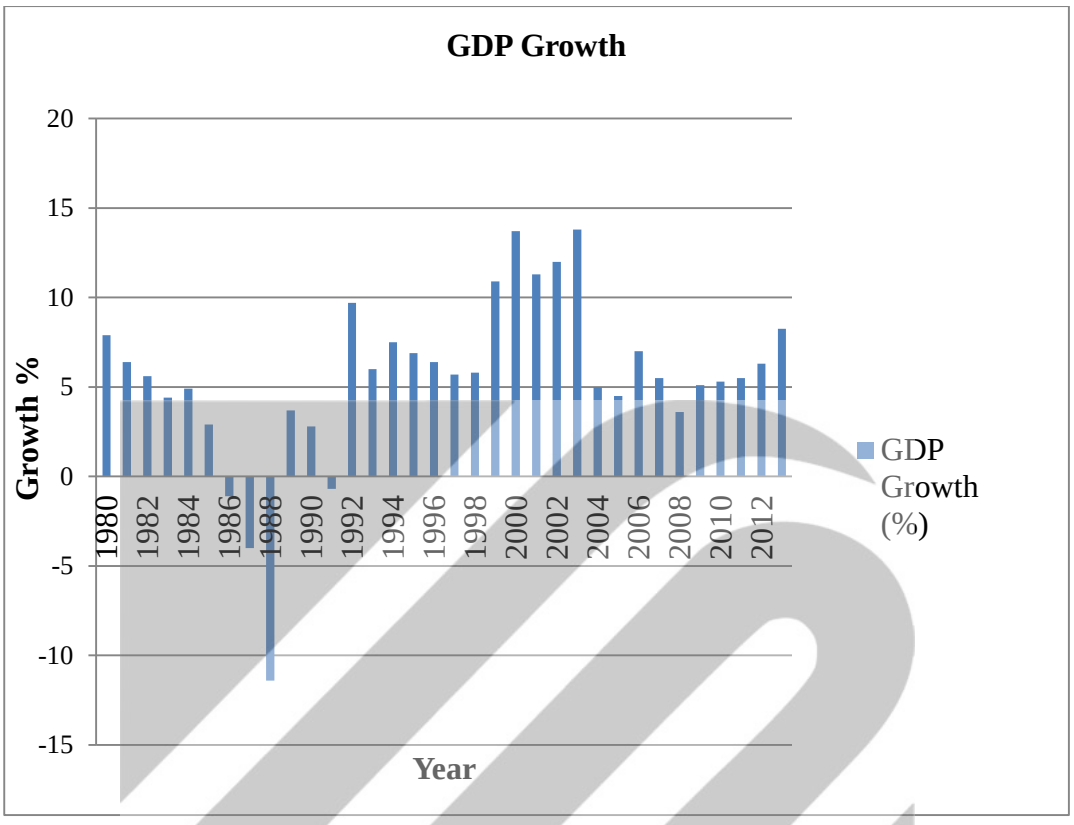

Figure 1.5 Gross Domestic Product Growth Rate per Year

Source: the Asian Development Bank: Online

As mentioned above no empirical studies on firm's entry mode choice in Myanmar were found. Therefore this study shall be interesting for academic researchers. This work aims to identify how modified validated theoretical framework and variables will work on the Myanmar market. Very few research papers on entry mode choice in emerging markets were found. Myanmar market has several market conditions that may attract special attention from academic sector. During the observed period of 1989-2011 Myanmar was characterized by high political risk. This political risk was an outcome of the sanctions and legal uncertainty during transition period from a socialist economy to a market-oriented economy. Therefore this study can provide knowledge on how firms make decisions in extremely unstable political conditions.

1.5 Scope and the Limitation of the Study

To analyze the choice of entry mode in Myanmar Dunning's framework was applied. Dunning's theory states that firms will choose the most appropriate form of entry into a foreign market by considering their ownership advantages of a firm, the location advantages of a market (country), and the internalization advantages of integrating transactions within the firm (Dunning, 1980). Several empirical studies applied Dunning's framework for testing independent variables or predictors of a dependent variable or an entry mode (Agarwal, 1992; Brouthers, 1996). A firm that possess competitive advantages would invest in a foreign country if this country more attractive for business operations than a country of a firm's origin. When a company has strong enough ownership advantages to invest in other countries it needs to decide whether to externalize or internalize these advantages, in other words to invest in a foreign market directly using equity entry modes or indirectly using non-equity modes. As shown in the Table 1.2, previous research papers used firm size, multinational experience, ability to produce differentiated products and technological intensity as the ownership advantages; market potential, country risk and cultural distance as the location advantages; and contractual risk as an internalization advantage.

Table 1.2 Factors that Influence Choice of Entry Modes

Ownership Advantages	Location Advantages	Internalization Advantages
Firm Size	Market Potential	Contractual Risk
Multinational Experience	Country Risk	
Ability to Produce Differentiated Products	Cultural Distance	
Technological Intensity		

Source: Agarwal, 1992: 5

As shown in the Table 1.3, the four most common modes of a foreign market entry are exporting, contractual agreement (licensing, franchising), joint venture, and sole venture modes (Agarwal & Ramaswami, 1992). Entry modes can be presented as two main groups of equity modes (a sole venture mode and a joint venture mode) and

non-equity modes (a contractual agreement, such as licensing or franchising and export) (Pan & Tse, 2000).

Joint venture and sole venture modes can be acquisitions and greenfield investments. Acquisitions mean buying the equity of existing company (Kogut & Singh, 1988). Greenfield investment is a start-up investment which often means construction of the new plant or other production facilities (Kogut & Singh, 1988).

Each of entry modes refers to different level of control, resource commitment, dissemination of knowledge risk, risk of losses and potential return (Hill et al,, 1990).

Table 1.3 Foreign Market Entry Modes

Foreign Market Entry Mode			
Sole Venture	Joint Venture	Contractual Agreement	Export

Source: Agarwal, 1992: 5

The study considers only investment entry modes, i.e. a sole venture mode and a joint venture mode. It means that the study doesn't include indirect investment modes: exporting and contractual agreement. Other research papers used both foreign direct investment entry modes and foreign indirect investment modes (Agarval & Singh, 1992), at the same time some studies consider only foreign direct investment modes (Agarval, 1994). This approach takes into an account only those foreign investors that have a legal entity in Myanmar: as sole venture (100% foreign-owned subsidiary) and joint venture (a company includes shares of a local partner).

This study uses only ownership and location advantage factors, such as investment size and market potential, because it's difficult to calculate internalization advantages. The decision of a firm to directly invest in foreign markets is determined by comparative profitability of externalization of assets and internalization of assets (Dunning, 1980). In other words a firm shall estimate potential profitability of foreign direct investment modes (sole venture or joint venture) and foreign indirect investment (a contractual agreement or exporting) and compare them. If potential profitability of foreign direct investment modes is higher than potential profitability of

foreign indirect investment modes, a firm is more likely to choose the foreign direct investment modes (internalization). Conversely, if potential profitability of foreign indirect investment modes is higher than potential profitability of foreign direct investment modes, a firm is more likely to choose the foreign indirect investment modes (externalization). Examples of internalization advantages may include: cost of broken contracts and ensuing litigation, transaction or information costs etc. (Dunning, 1980, 1995). The difficulty to calculate the costs of internalization over externalization was pointed out in previous studies (Agarwal, 1992; Brouthers, 1996). However at least one paper measured internalization advantage by managerial perception of the costs of making and enforcing contracts in a host country (Agarwal, 1992).

The first limitation of this study is that it uses proxy variables to measure ownership and location advantages. Although similar proxies have been used in past research they might not be reliable and valid measures. Most of other research papers measured ownership advantages or firm-specific factors by firm size proxy variable (Agarwal, 1992, 1994; Erramilli & Rao, 1993; Taylor et al., 2000), however this paper uses investment size ownership advantage or firm-specific factor that can predict choice of entry mode. The reason to use investment size instead of firm size is a difficulty to identify the origin of investing companies. For example some registered in Myanmar companies that belong to foreign investors may not have the same name as the foreign investor's parent company. Another difficulty is that many companies invest in Myanmar through countries with relaxed tax and legal regime, British Virgin Islands for instance. In such cases identification of a parent company may not be possible. Or a parent company may be a private company that does not have a legal obligation to disclose its financial statements. In such cases investment size may be an appropriate variable that identifies firm's ownership advantages or firm-specific factors.

The second limitation is that this study considers foreign firms entries in Myanmar during specific period of time: since 1989 until 2011. Before 1988 Myanmar was a socialist country, entrepreneurship was illegal and foreign direct investments were restricted by law. Therefore there were no significant foreign direct investments before 1989. However in 1989 the Foreign Investment Law was enacted

and many foreign companies started to establish their subsidiaries in Myanmar. So we can't study a period before 1989 due to not significant number of foreign direct investments in Myanmar. Data for foreign direct investment companies in Myanmar was available only to 2011. However it shall not be considered as an impediment of this study. The transition period in Myanmar economy, a period of sanctions may be very much interesting for examination of entry modes' predictors. Indeed, the political risk of Myanmar from 1989 till 2011 was extremely high and results of this study may be applied for other countries with transition period, countries under sanctions and countries with high political risk. For example in the end of 2014 it appeared that the United States' sanctions against Cuba may be lifted. It may encourage more foreign direct investments in Cuba from the United States and other countries. So if the United States' sanctions are lifted the market situation in Cuba may be similar to the situation of Myanmar in 1988-89.

The third limitation of this study is that a data sample is not normal according to descriptive statistics performed in chapter 4. It may be explained by not adding enough observations to the sample.

1.6 Conceptual Model

Dunning's theory states that firms will choose the most appropriate form of entry into a foreign market by considering their ownership advantages of a firm, the location advantages of a market or country, and the internalization advantages of integrating transactions within the firm (Dunning, 1980). Several empirical studies applied Duning's framework to analyze predictors of entry mode choice (Agarwal, 1992; Brouthers, 1996). A firm that possesses competitive advantages would invest in a foreign country if this country more attractive for business operations than a country of a firm. When a company has strong enough ownership advantages to invest in other countries it needs to decide whether to externalize or internalize these advantages, in other words to invest in foreign market directly using equity entry modes or indirectly using non-equity modes.

Later Dunning's theory was applied in entry modes studies (Agarwal, 1992; 1994). It was proved that large ownership, location and internalization advantages

increase firm's tendency to choose higher control modes (sole venture or export) over lower control modes (joint venture or contractual agreement) (Agarval, 1992). Then similar variables were applied to examine effect of ownership (firm-specific) and location (country-specific) advantage factors on foreign direct investment entry mode choice (sole venture or joint venture) (Agarwal, 1994).

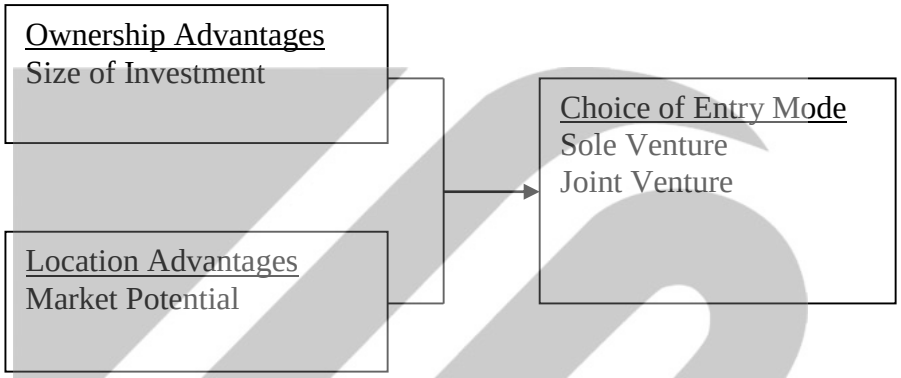

Figure 1.6 Conceptual Model

The conceptual model consisted of two variables or predictors of choice of foreign direct investment entry mode. Therefore, the two key variables or predictors are independent variables to predict the dependent variable of foreign direct investment entry mode, as shown in the Figure 1.6.

Several variables used in the past research papers were not included in this study: firm size, multinational experience, multinational experience, ability to produce differentiated products, technological intensity, country risk, socio-cultural distance and contractual risk. The reason of not including these variables discussed below in this chapter.

The ownership advantage variables, such as firm size, multinational experience, multinational experience, ability to produce differentiated products and technological intensity were not included due to lack of public information of many firms invested in Myanmar. Some companies invested in Myanmar are private and don't have a legal requirement to publish information on financial statements, number of staff and other related information.

Country risk variable was not included due to two reasons. Firstly information on Myanmar political risk is not available prior to 1995. Secondly Myanmar's political risk was constantly high from 1995 until 2011, therefore it doesn't make sense to include this variable. Instead, control variable of OECD membership was applied. Most of OECD countries imposed sanctions against Myanmar therefore it was especially risky for such firms to invest in Myanmar during the observed period.

Socio-cultural distance variable wasn't included due to high cost of purchasing relevant data. Instead, control variable of ASEAN membership was applied. The author assumed that ASEAN countries are culturally close to each other and firms from ASEAN countries may tend to choose a sole venture entry mode over a joint venture entry mode.

Contractual risk variable wasn't included due to lack of proxy variable for this independent variable. The previous studies collected information regarding this variable by means of survey (Agarwal, 1992). The survey procedure might require significant time cost and therefore was not performed.

The literature review chapter discusses the role of the need of control, resource availability, dissemination risk, risk of losses and return potential when an organization chooses between sole venture and joint venture modes. The chapter elaborates what impact control, resource availability, dissemination risk, risk of losses and return potential have on firm's choice among sole venture, joint venture, export and contractual agreement entry modes. Then the Dunning's framework is introduced for explaining choice between sole venture and joint venture modes. The chapter offers an analysis of existing literature on effects of ownership, location and internalization advantage factors on firm's choice between sole venture and joint venture modes. Then the author discusses classification of entry modes and presents division of entry modes on two main groups, such as equity based modes and non-equity based modes. The equity based modes are sole venture and joint venture, the non-equity modes are export and contractual agreement.

Chapter 3 describes the research methodology of this study. It describes research questions and hypotheses, the sample of the study and data collection procedure, the measurement of variables and the binomial logistic analysis used in the study.

Chapter 4 describes the process of analysis of the collected data by means of descriptive statistics, normality assessment, multicollinearity test and binomial logistic regression. Results of hypotheses test were also presented in the chapter 4.

Chapter 5 includes presentation of the results, its discussion and conclusion.

CHAPTER 2
LITERATURE REVIEWS

This chapter offers a literature review that provides insight into why and how a firm makes choice among sole venture, joint venture, export and contractual agreement entry modes. The details discussed in the literature review are used as the foundation to the problem statement and the model.

The first section of the literature review discusses the role of the need of control, resource availability, dissemination risk, risk of losses and return potential when an organization chooses between sole venture and joint venture modes. The section elaborates what impact control, resource availability, dissemination risk, risk of losses and return potential have on firm's choice among sole venture, joint venture, export and contractual agreement entry modes. The next section introduces the Dunning's framework for explaining choice between sole venture and joint venture modes. Also the section offers an analysis of existing literature on effects of ownership, location and internalization advantage factors on firm's choice between sole venture and joint venture modes. The next section discusses classification of entry modes. This section presents division of entry modes on two main groups, such as equity based modes and non-equity based modes. The equity based modes are sole venture and joint venture, the non-equity modes are export and contractual agreement.

2.1 Control, Resource Commitment and Dissemination Risk

2.1.1 Control, Risk and Return

Control is defined as "authority over operational and strategic decision-making" (Hill et al,, 1990). Firm's choice is based on resource availability (Agarwal & Ramaswami, 1992) and need for control (Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992). Entry mode choices are often compromise among resource commitment, need for control and trade-offs between risks and returns (Agarwal & Ramaswami, 1992; Anderson & Gatignon, 1986). Control is maybe the most desirable characteristic for any kind of business. Control (the ability to influence systems, methods, and decisions) is a tool to get a higher profit (Anderson & Gatignon, 1986).

However control over the enterprise allows a foreign investor not only to obtain larger profits, but causes high recourse commitment and risks (Anderson & Gatignon, 1986). If the foreign firm controls 100 per cent of stake in an enterprise it also runs high risk of losses. Moreover investing by oneself is quiet expensive and requires a foreign company to commit large amount of financial, human, time and other resources. Eventually each company makes decision what kind of entry mode to choose: low control or high control mode, based on ownership, location and internalization advantages.

Classical theory of strategic decision-making has suggested that entry mode choice as an important strategic decision is determined by trade-offs between risks and returns (Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992). The entry mode literature emphasizes the role of control because it is the most significant determinant of risk and return, so focusing on control is consistent with normative decision theory (Anderson & Gatignon, 1986). Control also assumes responsibility for making managerial decisions, commitment of resources, reputational and financial risks, and risk of dissemination of knowledge (Anderson & Gatignon, 1986).

2.1.2 Resource Commitment

Resource commitment refers to tangible (e.g. Plant, Machines, Equipment) or intangible (e.g. Intellectual Property) assets that a firm would like to use for business operations (Hill et al,, 1990). Resource commitment refers to the financial, physical, human resources, intellectual property that firms expose to risk of losses (Driscoll & Paliwoda, 1997). When a foreign firm decides to invest abroad it needs mobilize financial, human and information resources in order to be able start and run business activities in the host country. Resource commitment is determined by the degree of control over foreign venture and nature of business. In order to open a restaurant in a foreign market, a foreign investor doesn't need to mobilize large resources. However oil and gas exploration, production and transportation may require commitment of large resources.

2.1.3 Dissemination Risk

Dissemination risk is the risk of independent operation of a local contractual agreement or joint venture partner using foreign firm's intangible assets, such as intellectual property; brand name; management or marketing know-how, technologies (Hill et al,, 1990). There are many examples dissemination of knowledge in food and beverage industry: Pizza Company in Thailand, a former local partner of Pizza Hut: an owner of EST was a local partner of Pepsi: Myanmar beverage producers that started their own operations after Coke and Pepsi left the country in late nineties.

A firm's competitive advantage is based on intellectual property, management, marketing and technological know-how (Hill et al,, 1990; Driscoll & Paliwoda, 1997). Dissemination of management, marketing and technological know-how through licensing, franchising or joint venture partner, host government and competitors is strongly unlikely for a foreign firm because it can reduce knowledge rents and even threat firm's survival (Hill et al,, 1990; Driscoll & Paliwoda, 1997). Therefore a firm's decision choosing an entry mode is extremely important and needs to take in an account protection of firm's intangible assets.

2.2 Ownership, Location and Internalization Advantages

2.2.1 Ownership Advantages

A firm that wishes to directly invest in foreign markets must possess assets which its competitors or potential competitors do not possess (Dunning, 1980). Examples of ownership (Competitive) advantages might include large financial resources; possession of operation technologies, know-how; access to markets that are close for other firms, or those firms have limited access; possession of higher management or organizational skills; surplus research & development and other capacity; economies of scale; possession of trademarks, patents, copyrights, production secrets, designs (Dunning, 1980; 1995).

Entry mode literature frequently uses firm size, multinational experience, ability to develop differentiated products and technological intensity as ownership factors that influence the choice of entry modes (Agarwal 1992; Agarwal 1994). A brief description of the main effects of these factors is presented below.

Firm size. Larger firms are more likely to choose a sole venture mode because of their capacity to commit resources, absorb risks, and lower transaction costs (Erramilli & Rao, 1993; Agarwal, 1994). Obviously large companies have great financial resources and it is easier for them to enter high risk markets, like countries without well-established legal framework and high corruption. Larger firms have fewer stakes in any individual transaction than do small firms (Taylor et al., 2000). Large companies may take advantage of economies of scope and scale. For example 7/11 convenient shops in Thailand enjoy lower price of supplied products due to high bargaining power of CP group. It makes 7/11 shops more competitive than small entrepreneurs' shops.

Large firms have more resources and can choose more market entry modes compared to smaller firms (Perks et al., 2013). Therefore large firms are more likely to choose investment modes and particularly sole venture than small firms. Small firms may not afford directly invest in foreign markets.

Multinational experience. Multinational experience is another factor that influences firms' market entry mode choice. Firms without foreign market experience are likely to have greater problems in managing foreign operations, they may perceive foreign market entry as too risky, while understand possible outcome of foreign business operations (Agarwal & Ramaswami, 1992). Firms that never invest abroad may find extremely difficult to coordinate international business operations. Many firms prefer to choose the most closest geographically and culturally country for the first investment. A Russian company is more likely to invest in a CIS country first such as Belarus or Kazakhstan. A Thai company may make the first foreign investment in an AEC country, for example Laos. Hong Kong businessmen will think of doing business in Mainland China first.

Firms with higher multinational experience are more likely to choose a sole venture entry mode (Agarwal & Ramaswami, 1992). It explains that higher experience may increase management's confidence to commit more resources and run higher risk in order to obtain higher revenue.

Ability to develop differentiated products and technological intensity. Firms that possess the ability to develop differentiated products are more likely to choose a sole venture mode because a joint venture or contractual agreement partner

may acquire commercial knowledge and use it in a separate business entity (Agarwal & Ramaswami, 1992). Firms characterized by high technological intensity typically train their joint venture or contractual agreement partners and transfer management and technological knowledge (Agarwal, 1994).

The sole venture mode is more desirable for the firms characterized by the ability to develop differentiated products and high technological intensity because of the risk of knowledge dissemination by the joint venture or contractual agreement partners (Agarwal, 1992; 1994).

2.2.2 Location Advantages

The propensity of a firm to directly invest in foreign markets is determined on profitability to exploit ownership advantages in connection with the local resources of foreign countries rather than those of the home country (Dunning, 1980).

Examples of location advantages might include possession of resources; low material and labor costs; low transport and communication costs; local markets; government policy: import tariff exemptions, investment incentives and incentives to local production; societal and infrastructure conditions (Commercial, Legal, Educational, Transport, and Communication); cross-country ideological, language, cultural, business, political differences (Dunning, 1980; 1995).

Entry mode literature frequently uses market potential, country risk and socio-cultural distance as location factors that influence the choice of entry modes (Agarwal 1992; Agarwal 1994). A brief description of the main effects of these factors is presented below.

Market Potential. Firms would invest in more attractive markets, because of high potential profitability in such markets (Agarwal & Ramaswami, 1992). Market growth in a host market affects firm's expected net returns, resource commitments, strategic orientations and entry mode decisions (Chen, 2009). A lot of studies characterized the attractiveness of a market in terms of its market potential (Agarwal, 1992; 1994; Leon-Darder, 2011; Perks, 2013).

Firms choose higher control in countries that have greater market potential (Agarwal, 1994). High market potential offers long-term profitability, and hence,

firms are more likely to invest using a sole venture mode over a joint venture mode in such markets (Talay & Cavusgil, 2009). Firms may choose majority joint venture or even sole venture, rather than minority joint venture, export or contractual agreement. Higher control increases profitability, but at the same time it increases risks.

Many large multinational firms are suffering from major economic recession in European and North American markets and investing in growing emerging markets in Asia (Perks et al., 2013). The most promising region in Asia is South East Asia and the most promising country in South East Asia is Myanmar. That's why examining factors that influence choice of market entry modes is very important for foreign investors or potential foreign investors in Myanmar.

Country Risk. Country risk or external uncertainty refers to the volatility of host country's political, economical and currency conditions (Anderson & Gatignon, 1986). Country risk might include: introducing new tariff and non-tariff barriers, changing local laws and regulations adversely affecting foreign companies, violence and political uncertainty (Perks et al., 2013).

Joint venture mode will have a higher cost compared to a sole venture mode if managers are unable to predict future events due to the high external uncertainty (Agarwal & Ramaswami, 1992). Uncertainty increases the cost of writing and enforcing contracts, which makes a sole venture mode more desirable (Agarwal, 1994). Foreign firms are motivated to take control of joint ventures as way to deal with rising risks in the host country (Pan, 2000). Firms will find the attractiveness of a sole venture mode in volatile environments and reduce desire to choose a joint venture mode (Erramilli & Rao, 1993). Firms that wish to invest in high risk countries may found difficult to enforce contracts there, therefore these firms would avoid contractual relationships such as joint venture, licensing and franchising, and would prefer enter such a market by a sole venture mode or just export the products.

Cultural Distance. One of the location advantages is cultural similarity between the host country and the firm's home country (Driscoll & Paliwoda, 1997). Cultural similarity can reduce uncertainty and increase ease of doing business. For example Spanish companies reduce their costs refer to cultural distance in Latin American markets, American companies in the Canadian market or the UK market, Australian firms in the New Zealand market. Cultural distance can create many

difficulties in operating in a host country (Agarwal, 1994). For example cultural distance may create the need to obtain additional information and therefore increase transaction costs. Foreign direct investment requires knowledge about conditions of the host country: its business climate and cultural characteristics (Johanson & Valhne, 1977). Frequently firms form joint ventures in order to reduce risks associated with cultural distance and uncertainty.

Cultural factors may increase costs and uncertainty of the entry mode, therefore cultural distance may influence the choice of entry modes (Kogut & Singh, 1988). Foreign firms entering in foreign markets may perceive cultural distance that encourages them to choose a joint venture mode (Erramilli & Rao, 1993). There is positive relationship between high cultural distance on the one hand, and high information-acquisition costs and high costs of operating as a sole venture, on the other hand (Erramilli & Rao, 1993). A foreign firm may form a joint venture with a local partner to avoid difficulties with communication with host country governments, competitors, clients, suppliers and employees (Kogut & Singh, 1988). For example Japanese companies formed more joint ventures in the US than British firms. Cultural distance may be reduced gradually if a company has long term presence in a host country.

A sole venture mode is more efficient than a joint venture mode if there is significant advantage in doing business in the foreign firm's way (Anderson & Gatignon, 1986). Such advantages may be high risk of intellectual property dissemination, high market potential or high costs of making and enforcing contracts in a host country.

2.2.3 **Internalization Advantage**

The decision of a firm to directly invest in foreign markets is determined by comparative profitability of externalization of assets and internalization of assets (Dunning, 1980). If it's more interesting for a firm to externalize its assets it would sell or lease these assets to other firms. If it's more interesting to internalize these assets it would establish a sole venture or joint venture in a foreign market.

Examples of internalization advantages might include avoidance of search and negotiating costs; costs of moral hazard; cost of broken contracts and ensuing litigation; costs of quotas, tariffs, price controls, tax differences; transaction or information costs; stability of recourse supply at desired price; control of markets; wish to exploit technological advantages; the economies of vertical integration (Dunning, 1980; 1995).

Entry mode literature used contractual risk as internalization factor that influence the choice of entry modes (Agarwal & Ramaswami, 1992). The difficulty to calculate the costs of internalization over externalization was pointed out by the previous researches (Agarwal, 1992; Brouthers, 1996). Therefore we excluded this factor from the study.

2.3 Classification of Entry Modes

As shown in the Table 2.1, the four most common modes of foreign market entry are exporting, contractual agreement (licensing, franchising), joint venture, and sole venture modes (Agarwal & Ramaswami, 1992). Entry modes can be presented as two main groups of equity modes (a sole venture mode and a joint venture mode) and non-equity modes (a contractual agreement, such as licensing or franchising and export) (Pan & Tse, 2000).

Joint venture and sole venture modes can be acquisitions and greenfield investments. Acquisitions mean buying the equity of existing company (Kogut & Singh, 1988). Greenfield investment is a start-up investment which often means construction of the new plant or other production facilities (Kogut & Singh, 1988).

Table 2.1 Classification of Entry Modes

Choice of Entry Mode			
Equity Modes		Non-Equity Modes	
Sole Venture	Joint Venture	Export	Contractual Agreement
Greenfield Acquisitions	Majority JV 50/50 JV Minor JV Greenfield Acquisitions	Direct Export Indirect Export	Licensing Franchising Alliances Others

Source: Agarwal & Ramaswami, 1992: 5

As shown in the table 2.2, each of entry modes refers to different level of control, resource commitment, dissemination of knowledge risk, risk of losses and potential return (Hill et al,, 1990).

Table 2.2 Characteristics of Different Entry Modes

Entry Mode	Resource	Control	Risk/Return	Dissemination Risk
Sole Venture	High	High	High	Low
Joint Venture	Medium	Medium	Medium	Medium
Export	Low	Low	Low	Low
Contractual Agreement	Low	Low	Low	High

Source: Hill et al,, 1990: 4

2.3.1 Sole Venture.

Sole venture is an institutional arrangement whereby a parent company takes full ownership of facilities and operation in the host country (Anderson & Gatignon, 1986; Taylor et all., 2000).

A sole venture mode is a high-control mode that can increase resource commitment, hence return and risk (Anderson & Gatignon, 1986). Control is the most important determinant of entry mode choice, because higher stake in an enterprise automatically increases potential return. At the same time higher control increases risks and resource commitment. In order to obtain higher control over an enterprise, a foreign firm needs to use more financial, human and other resources, therefore sole

venture is an “Expensive” mode. A foreign firm has to rely on itself in terms of financing its operations in a foreign market.

A sole venture mode has the lowest risk of dissemination of know-how (Hill et al., 1990). Firms that characterized high technological intensity prefer an entry mode with the highest control, such as sole venture. If firm’s main competitive advantage is knowledge or know-how it would tend to protect this value by increasing control over its foreign venture.

2.3.2 Joint Venture

Joint venture is an institutional arrangement whereby the foreign firm shares ownership and control of the enterprise with a local partner (Taylor et all., 2000). Joint venture can be classified by a degree of control: minority joint ventures, 50/50 joint ventures and majority joint ventures. A joint venture mode refers to the sharing of the business expenses and therefore comparably low risk and return.

A joint venture mode is a low-control mode that minimizes resource commitment, hence return and risk (Anderson & Gatignon, 1986). Usually when a firm directly invest in a foreign market a sole venture mode is more desirable due to higher potential returns. Main reasons of choosing a joint venture mode over a sole venture mode are shortage of resources and cultural distance. Cultural distance may create uncertainty, and additional costs, to overcome these difficulties firms may form a joint venture with a local partner. A joint venture mode may reduce costs associated with negotiations with a host country government, local suppliers, partners and buyers.

In case of joint venture a foreign firm has medium risk of know-how dissemination (Hill et al,, 1990). Sole venture has the lowest dissemination risk due to lack of local partners. Contractual agreement has the highest dissemination risk, because a foreign firm transfers its knowledge and/or know-how to a local partner at the same time a foreign firm has low control over an enterprise in a foreign market.

2.3.3 Contractual Agreement

Contractual agreement such as licensing or franchising is an institutional arrangement whereby the foreign firm transfers intangible assets, such as knowledge, skills and/or brand name to the firm in a host market on a long-term relationship basis (Driscoll & Paliwoda, 1997).

Contractual agreements may include: licensing, franchising, alliances and other kinds of contractual arrangements. Licensing is an institutional arrangement whereby one firm transfers the privilege to access its intangible property rights in return for royalties (Driscoll & Paliwoda, 1997). For example manufacturing companies may use foreign firm's intellectual property to produce certain kinds of products. Franchising is an institutional arrangement whereby one firm transfers managerial, marketing and technical expertise, and financial assistance in return for management fees (Driscoll & Paliwoda, 1997). Franchising is very popular mode in a fast food industry. The parent company transfers its brand name and technical assistance to the local partner. The local partner is eligible to provide the same level of quality as the parent company. Franchising may be an effective way of fast expansion. Many firms may compete for the right of using world recognized brand names (McDonalds, Burger King, Gold's Gym, etc.).

A contractual agreement mode is a low-control mode that minimizes resource commitment, hence return and risk (Anderson & Gatignon, 1986). A foreign firm runs a significant dissemination risk of its know-how in case of contractual agreement, such licensing or franchising (Hill et al,, 1990).

2.3.4 Export

Export is an institutional arrangement whereby the foreign firm transfers products from domestic market or a third country to the host country (Driscoll & Paliwoda, 1997). Export is the most popular mode of entry. It's a good way to test a market, to identify local residents' tastes. Also is appropriate choice for small and medium businesses, which are less competitive and possess less ownership advantages than large multinational corporations. For example some Russian companies may use export as an entry mode in Asian markets due to low ownership

advantages, high perceived country risk and high perceived cultural distance. Cultural distance between some Asian countries and Russia sometimes is overestimated. For example many people from China, Laos, Mongolia and Vietnam got educated in the Soviet Union. Russian companies may effectively use these and other links to overcome country risk and cultural distance.

A firm may export products directly and indirectly. Direct exports is export whereby an exporter handles documentation, physical delivery and pricing policies (Driscoll & Paliwoda, 1997). Indirect exports is export whereby an exporter uses trading companies to perform its activities, without necessary involvement of products sales in a host country (Driscoll & Paliwoda, 1997).

An export mode is a low-control mode that minimizes resource commitment, hence return and risk (Anderson & Gatignon, 1986). Export is a mode of indirect investment, when a firm decides to externalize rather than internalize its ownership advantages. Firms can give up control if they still can get high profit and run low risks. In case of export a foreign firm runs a low risk of knowledge dissemination (Driscoll & Paliwoda, 1997). A foreign firm doesn't transfer any valuable knowledge or know-how, it simply produce a product and transfers it to another country in order to obtain a profit. It's very safe mode for companies that categorized by high technological intensity.

The table 2.3 presented factors used in the empirical literature that influence the choice of entry mode in a foreign market.

Table 2.3 Factors that Influence Choice of Entry Modes

Ownership Advantages	Location Advantages	Internalization Advantages	Investment Entry Mode
1. Firm Size 2. Multinational Experience 3. Ability to Produce Differentiated Products 4. Technological Intensity	1. Market Potential 2. Country Risk 3. Cultural Distance	1. Contractual Risk	1. Sole Venture 2. Joint Venture 3. Contractual Agreement 4. Export

Source: Agarwal, 1992: 5

2.4 Conclusion

The literature review chapter provided information on firm's decision making regarding an entry mode in foreign markets. Discussed above variables were used in the model of this study. Some variables were not used due to lack of firm's specific information of foreign investors in Myanmar.

The chapter discussed the factors that influence the entry mode decision making: role of the need of control, resource availability, dissemination risk, risk of losses and return potential. Also the Dunning's theoretical framework was introduced for explaining entry mode choice. The existing literature on effects of ownership, location and internalization advantage factors on firm's entry mode choice was analyzed. The classification of entry modes was discussed. All known entry modes may be divided in two main groups, such as equity based modes and non-equity based modes. The equity based modes are sole venture and joint venture, the non-equity modes are export and contractual agreement.

CHAPTER 3
RESEARCH METHODOLOGY

This chapter outlines the research methodology followed to examine the effect of the investment size and the market potential on firms' choice of foreign direct investment entry mode in Myanmar. The chapter includes measurement of variables, purpose of the study, research questions and hypotheses, population and data collection, data analysis and conclusion.

3.1 Measurement of Variables

3.1.1 Investment Size

Investment size is a monetary amount of the investment (Chang, 2014). Many other researchers used firm size as variable that influence entry mode choice. Our data doesn't contain information on size of investing foreign firms, but it has information on investment size. Investment size can be used as an ownership advantage that strengthens foreign firm's intention to directly invest abroad according to Dunning's framework (Dunning, 1980; 1995).

3.1.2 Market Potential.

The details of the market potential variables are discussed in chapter 2. Market potential is measured as a GDP growth rate during the three years before the new foreign entry (Parola, 2013). Market potential is also measured as FDI inflow during the three years before the new foreign entry (Talay 2009).

The measurement of the independent variables or predictors is presented in the Table 3.1.

3.1.3 Entry Mode

The details of this variable are discussed in chapter 2. The foreign firms were divided into two groups: sole ventures and joint ventures (Agarwal 1994).

3.1.4 Control Variables

Several control variables were used in this study: sector, country, OECD membership, ASEAN membership,

Sector. According to www.investopedia.com a sector refers to a group of companies that are related in terms of their primary business activities. The observed investments included data from 8 sectors: manufacturing; hotel and tourism; hydro power; livestock and fisheries; mining; oil and gas; real estate; and transport. This control variable was included in the model to test relationship between a sector and firm's likelihood of choosing a sole venture entry mode.

Country. A country refers to a country of origin of a foreign investor. The observed investments included data from 10 countries of foreign investors' origin: the People's Republic of China; the Republic of Singapore; the Kingdom of Thailand; British Virgin Islands; Hong Kong; Japan; Malaysia; the United Kingdom; the Republic of Korea; and Canada. The control variable of foreign investor's country of origin was included in the model to test a relationship between a country of origin and firm's likelihood of choosing a sole venture entry mode.

OECD Membership. The Organization of Economic Cooperation and Development includes 34 most developed countries. The observed investments included data of foreign investors from countries that are members of the Organization of Economic Cooperation and Development and foreign investors from countries that are not members of the Organization of Economic Cooperation and Development. During 1995 to 2012 most of the OECD countries imposed sanctions against Myanmar. Therefore it is interesting to test a relationship between OECD membership and firm's likelihood of choosing a sole venture entry mode in Myanmar.

ASEAN Membership. The Association of South East Asian Nations includes 11 countries of South East Asia: Brunei, Cambodia, Indonesia, Lao PDR, Malaysia, Myanmar, the Philippines, Singapore, Thailand, Timor-Leste and Vietnam. The observed investments included data about foreign investors from countries that are members of the Association of South East Asian Nations and foreign investors from countries that are not members of the Association of South East Asian Nations. The author assumed that ASEAN countries have less social cultural distance. According to the previous studies social cultural distance between a country of foreign investor's

origin and a host country increases firm's likelihood of choosing a joint venture entry mode (Kogut & Singh, 1988). Therefore it is interesting to test a relationship between ASEAN membership and firm's likelihood of choosing a sole venture entry mode in Myanmar.

Table 3.1 Measurement of Variables

Variable	Measurement	Reference
Entry mode	1. Sole venture 2. Joint venture	Agarwal, 1992; 1994
Investment size	Monetary amount of the investment	Chang, 2014
Market potential	1. GDP's growth rate during the three years before the new foreign entry; 2. FDI inflow during the three years before the new foreign entry.	Parola, 2013 Talay 2009

3.2 Purpose of the Study

The purpose of this study is to examine the effect of the two variables, from the above conceptual framework, on firm's choice of foreign direct investment entry mode. The two independent variables are: the size of investment and the market potential and the dependant variable is a foreign direct investment entry mode (sole venture or joint venture). Size of investment is measured as a monetary amount of the investment. Market potential is measured by two methods: as a GDP growth rate during the three years before the new foreign entry and as FDI inflow during the three years before the new foreign entry. The target population of the 206 investments was observed for which relevant data on the predictor variables was available. It is expected that the two independent variables in the conceptual framework will contribute to firm's choice of foreign direct investment entry mode.

Firms that want to directly invest in Myanmar need to make important decision on choice of entry mode. There are two options for foreign direct investment: a sole venture entry mode and a joint venture entry mode. Previous studies have identified a number of factors that influence the choice of an entry mode for a selected target market. An important gap in the empirical literature is the issue of how firm-

specific and country-specific factors influence firms' choice of foreign direct investment entry mode in Myanmar.

3.3 Research Questions and Hypotheses

This section describes research questions and research hypotheses. The table 3.2 presents the list of research questions and research hypotheses. The research questions of this study are:

1. Is there a relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode?
2. Is there a relationship between the market potential and firm's likelihood of choosing a sole venture entry mode?

Based on the above conceptual model, the two hypotheses are proposed to test the relationship between each independent variable or predictor and firm's likelihood of choosing a sole venture entry mode as follows:

1. Relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode.

H_1: There is a positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode.

2. Relationship between the market potential and firm's likelihood of choosing a sole venture entry mode.

H_2: There is a positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode.

The above two hypotheses will be tested by statistical method using a data analysis program. The relationship between each hypothesis and firm's likelihood of choosing a sole venture entry mode is tested by using binomial logistic regression.

Table 3.2 Research Questions and Hypotheses

Research Questions and Hypotheses	
Research Questions	Hypotheses
RQ_1 Is there a relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode?	H_1 There is a positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode.
RQ_2 Is there a relationship between the market potential and firm's likelihood of choosing a sole venture entry mode?	H_2 There is a positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode.

3.4 Population and Data Collection

According to the Myanmar Survey Research's paper "Foreign direct investment companies in Myanmar" there were 385 sole ventures and joint ventures since 1989 till 2011 in Myanmar. Therefore the entire population for our study shall be 385 observations.

Data on entry mode and the size of investment is available only for 262 companies that invested in Myanmar since 1989 till 2011 and still existed in 2011. The cases that represent sectors and countries with less than 5 firms were then excluded. Finally the target population was determined as 206 firms invested directly in Myanmar from 1989 till 2011.

To test the above hypotheses, data were collected from the Myanmar Survey Research's paper "Foreign direct investment companies in Myanmar" for foreign companies that established sole venture or joint venture companies in Myanmar from 1989 until 2011. Myanmar Survey Research is the first independent agency in Myanmar established in 1995 according to its official website. "Foreign direct investment companies in Myanmar" is a report that shows company profiles and detailed business activities of each of FDI companies in Myanmar as described on the official website of Myanmar Survey Research. Two hundred six investments were observed for which relevant data on the predictor variables was available. These observations covered investments from 10 foreign countries, more notably: the People's Republic of China; the Republic of Singapore; the Kingdom of Thailand; British Virgin Islands; Hong Kong; Japan; Malaysia; the United Kingdom; the Republic of Korea; and Canada. The set of 206 foreign investors came from a variety

of industries, more notably: manufacturing; hotel and tourism; hydro power; livestock and fisheries; mining; oil and gas; real estate; and transport.

3.5 Data Analysis

Data analysis statistical software was used to interpret all collected data. Statistics used for data analysis were of two types: descriptive statistics and binomial logistic regression.

3.5.1 Descriptive Statistics

Data on country of origin and sector was analyzed by Frequency and Percentage. For variables, Mean, Standard Deviation, Skewness, Kurtosis, 5% Trimmed Mean, Extreme Values, Kolmogorov-Smirnov and Shapiro-Wilk tests of normality, were applied.

3.5.2 Binominal logistic regression

Binomial logistic regression is a statistical technique that allows testing models to predict categorical outcomes with two categories (Pallant, 2002). Binominal logistic regression was used to obtain maximum likelihood estimates of the parameters measuring the impact of investment size and market potential on foreign market entry mode choice. Binomial logistic regression was used in prior research papers to obtain the maximum likelihood estimates of the parameters measuring the impact of socio-cultural distance and the interactions on the choice of joint venture form (Agarwal, 1994). Many past research papers on choice of entry mode used multinomial logistic regression (Agarwal 1992; Anderson & Coughlan 1987; Kogut & Singh, 1988; Erramilli & Rao, 1993; Pan & Tse, 2000).

This technique has two main assumptions: sample size and multicollinearity (Pallant, 2002). Small sample with large number of predictors may cause problems with analysis (Pallant, 2002). Predictor variables shall be strongly related to the dependent variable, but not strongly related to each other (Pallant, 2002).

3.6 Conclusion

The purpose of this study is to analyze the effect of the size of investment and the market potential on firm's likelihood of choosing a sole venture entry mode. The review of the past literature provided an opportunity to formulate a conceptual model for this study. The proposed in this study conceptual model had two independent variables or predictors: the size of investment and the market potential and one dependent variable: a foreign direct investment entry mode. The two hypotheses were proposed and the binomial logistic regression, as a data analysis procedure, was then applied. An expected outcome of this study is to obtain a clearer picture of what determines choice of foreign direct investment entry modes in Myanmar.

CHAPTER 4
RESEARCH FINDINGS

The chapter described the process validating a modified conceptual model as identified in the chapter 3. The descriptive statistics, normality assessment, multicollinearity test and binomial logistic analysis of collected data were presented. This chapter is organized as follows: descriptive statistics, multicollinearity test, normality assessment and binomial logistic regression.

4.1 Descriptive statistics

Obtaining descriptive statistics on the variables is required to test assumptions of the model: sample size, multicollinearity and outliers.

The Table 4.1 shows that our sample includes 10 countries: Singapore, China, Thailand, British Virgin Islands, Hong Kong, Japan, Malaysia, UK, Korea and Canada. There are 41 companies from Singapore (19.9%), 19 companies from China (9.2%), 29 companies from Thailand (14.1%), 7 companies from British Virgin Islands (3.4%), 19 companies from Hong Kong (9.2%), 23 companies from Japan (11.2%), 21 companies from Malaysia (10.2%), 14 companies from the United Kingdom (6.8%), 24 companies from Korea (11.7%) and 9 companies from Canada (4.4%).

Table 4.1 Descriptive of market entries followed by Country

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Singapore	41	19.9	19.9	19.9
China	19	9.2	9.2	29.1
Thailand	29	14.1	14.1	43.2
British Virgin Islands	7	3.4	3.4	46.6
Hong Kong	19	9.2	9.2	55.8
Japan	23	11.2	11.2	67.0
Malaysia	21	10.2	10.2	77.2
UK	14	6.8	6.8	84.0
Korea	24	11.7	11.7	95.6
Canada	9	4.4	4.4	100.0
Total	206	100,0	100,0	

As shown in the table 4.1 about 85 per cent of the foreign investment companies came from Asian countries. The reason for this may be that Asian countries didn't impose sanctions against Myanmar. The leaders for Myanmar investments are Singaporean companies. Many multinational corporations establish regional headquarters in Singapore and invest in South East Asia through their Singaporean subsidiaries. Large investors in Myanmar are Myanmar's partners in ASEAN: Thailand (14.1 per cent) and Malaysia (10.2 per cent). Other large investors are most developed Asian countries: Japan (11.2 per cent) and Korea (11.7 per cent). Hong Kong is also one of the favorite places of multinational corporations for regional offices in Asia with 9.2 per cent. This is interesting that quite significant amount of foreign direct investments came from British Virgin Island which may be considered as an "offshore zone".

The table 4.2 shows that our sample has 8 sectors: manufacturing, hotel and tourism, hydro power, livestock and fisheries, mining, oil and gas, real estate and transport. There are 94 manufacturing companies (45.6 per cent), 35 hotel and tourism companies (17.0 per cent), 12 livestock and fisheries companies (5.8 per cent), 14 mining companies (6.8 per cent), 22 oil and gas companies (10.7 per cent), 12 real estate companies (5.8 per cent) and 12 transport companies (5.8 per cent).

Table 4.2 Descriptive of market entries followed by Sector

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Manufacturing	94	45.6	45.6	45.6
Hotel and Tourism	35	17.0	17.0	62.6
Hydro Power	5	2.4	2.4	65.0
Livestock and Fisheries	12	5.8	5.8	70.9
Mining	14	6.8	6.8	77.7
Oil and Gas	22	10.7	10.7	88.3
Real Estate	12	5.8	5.8	94.2
Transport	12	5.8	5.8	100.0
Total	206	100.0	100.0	

The Table 4.2 shows that almost half of foreign direct investments were made in manufacturing sector. Manufacturing is labour-intensive sector and Myanmar has comparably not expensive labour resources. The second popular sector is hotel and

tourism with 17 per cent. Myanmar has a long coast line with many islands in the South and beautiful lakes and mountains with snow tops in the North. Myanmar's neighbors: Thailand, Malaysia and India receive billions of dollars revenues from this sector. Myanmar has large reserves of oil and gas and therefore the third popular sector for foreign direct investments is oil and gas sector with 10.7 percent.

The table 4.3 presents that our sample includes 22 years: 1989-2008 and 2010-2011. In 1989 there were 2 observed entries (1%), in 1990 – 9 entries (4.4%), in 1991 – 3 entries (1.5%), in 1992 – 2 entries (1.0%), in 1993 – 14 entries (6.8%), in 1994 – 20 entries (9.7%), in 1995 – 18 entries (8.7%), in 1996 – 35 entries (17.0%), in 1997 – 33 entries (16.0%), in 1998 – 10 entries (4.9%), in 1999 – 9 entries (4.4%), in 2000 – 12 entries (5.8%), in 2001 – 8 entries (3.9%), in 2002 – 5 entries (2.4%), in 2003 – 7 entries (3.4%), 2004 – 6 entries (2.9%), 2005 – 2 entries (1.0%), 2006 – 2 entries (1.0%), 2007 – 3 entries (1.5%), in 2008 – 2 entries (1.0%), in 2010 – 3 entries (1.5%), in 2011 – 1 entry (.5%).

Table 4.3 Descriptive of market entries followed by Year of Entry

	Frequency	Percent	Valid Percent	Cumulative Percent
1989	2	1.0	1.0	1.0
1990	9	4.4	4.4	5.3
1991	3	1.5	1.5	6.8
1992	2	1.0	1.0	7.8
1993	14	6.8	6.8	14.6
1994	20	9.7	9.7	24.3
1995	18	8.7	8.7	33.0
1996	35	17.0	17.0	50.0
1997	33	16.0	16.0	66.0
1998	10	4.9	4.9	70.9
1999	9	4.4	4.4	75.2
2000	12	5.8	5.8	81.1
2001	8	3.9	3.9	85.0
2002	5	2.4	2.4	87.4
2003	7	3.4	3.4	90.8
2004	6	2.9	2.9	93.7
2005	2	1.0	1.0	94.7
2006	2	1.0	1.0	95.6
2007	3	1.5	1.5	97.1
2008	2	1.0	1.0	98.1
2010	3	1.5	1.5	99.5
2011	1	.5	.5	100.0
Total	206	100.0	100.0	

The Table 4.3 shows that one third of all foreign direct investments were made in 1996-1997 period. Myanmar's transition from socialist to market oriented economy started in 1988 and in early nineties Myanmar might not have well established market economy institutions. In 1997 the United States imposed sanctions against Myanmar and Asian financial crisis started, therefore a number of established foreign direct investment companies decreased dramatically after 1997.

Table 4.4 shows that 136 entries (66.0%) were made by the non-members of the Organization of Economic Cooperation and Development. And 70 entries (34.0 per cent) were made by the members of the Organization of Economic Cooperation and Development.

Table 4.4 Descriptive of market entries followed by OECD Membership

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
No	136	60.0	66.0	66.0
Yes	70	34.0	34.0	100.0
Total	206	100.0	100.0	

The table 4.4 shows that only one third of all foreign direct investment companies in Myanmar came from OECD or most developed countries. Most of OECD countries imposed sanctions against Myanmar in mid-nineties therefore investment for firms from OECD countries were restricted.

Table 4.5 shows that 97 entries (47.1%) were made by the members of the Association of South East Asian Nations. And 109 entries (52.9%) were made by the non-members of the Association of South East Asian Nations.

Table 4.5 Descriptive of market entries followed by ASEAN Membership

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Yes	97	47.1	47.1	47.1
No	109	52.9	52.9	100.0
Total	206	100.0	100.0	

The Table 4.5 shows that almost half of foreign direct investments were made by companies from ASEAN countries. This is not surprising fact due to cultural

similarity, geographical closeness and increasing economic integration between ASEAN countries during the observed period.

The Table 4.6 presents that 88 entries (42.7 per cent) were made with FDI inflow for 3 previous years less than $720,245,408. And 118 entries (57.3 per cent) were made with FDI inflow for 3 previous years more than $720,245,408.

Table 4.6 Descriptive of market entries followed by FDI Inflow

	Frequency	**Percent**	**Valid Percent**	**Cumulative Percent**
Low	88	42.7	42.7	42.7
720,245,408+	118	57.3	57.3	100.0
Total	206	100.0	100.0	

FDI Inflow variable was divided in two groups low FDI inflow for the previous 3 years is less than 720,245,408 USD and high FDI inflow for the previous 3 years is equal or more than 720,245,408 USD.

4.2 Multicollinerity Test

Tolerance is an indicator of how much of the variability of the specified independent is not explained by the other independent variables in the model and is calculated using the formula $1\text{-}R^2$ for each variable (Pallant, 2002). As shown in the Table 4.7 the values are more than .10 it indicates that the multiple correlation with other variables is low, therefore there is no multicollinearity. The Variance inflation factor (VIF) is the inverse of the Tolerance value (1 divided by Tolerance) (Pallant, 2002). As shown in the Table 4.7 VIF values are below 10 and therefore not indicating multicollinearity.

Table 4.7 Coefficients Table

	Collinearity Statistics	
	Tolerance	VIF
GDP Growth	.953	1.049
FDI Inflow	.956	1.046
Size of Investment	.997	1.003

4.3 Normality Assessment

Normality is one of the assumptions of the used in this study model. The normal distribution of scores on the dependent variable means a symmetrical, bell-shaped curve, which has the largest frequency of scores in the middle with smaller frequencies towards the extremes (Pallant, 2002; Gravetter & Wallnau, 2004).

Table 4.8 Normality Assessment of the Country Variable

		Statistic	Std. Error
Mean		5.53	.319
95% Confidence for Mean	Lower Bound	4.90	
	Upper Bound	6.16	
5% Trimmed Mean		4.99	
Median		5.00	
Variance		20.943	
Std. Deviation		4.576	
Minimum		1	
Maximum		21	
Range		20	
Interquartile Range		5	
Skewness		1.665	.169
Kurtosis		3.359	.337

Table 4.8 shows that for the variable country we have information from 206 entries which present 10 countries, with a mean of 5.53 and standard deviation of 4.576. Positive skewness value (1.665) indicates positive skew. Positive kurtosis value (3.359) indicates that the distribution is rather peaked, with long thin tails. 5% Trimmed Mean is 4.99 compare to original mean of 5.53.

Table 4.9 Normality Assessment of the Sector Variable

		Statistic	**Std. Error**
Mean		4.26	.269
95% Confidence for Mean	Lower Bound	3.73	
	Upper Bound	4.79	
5% Trimmed Mean		4.01	
Median		3.00	
Variance		14.855	
Std. Deviation		3.854	
Minimum		1	
Maximum		12	
Range		11	
Interquartile Range		7	
Skewness		.781	.169
Kurtosis		-.937	.337

Table 4.9 shows that for the variable sector we have information from 206 entries which present 8 sectors, with a mean of 4.26 and standard deviation of 3.854. Positive skewness value (.781) indicates positive skew. Negative kurtosis value (-.937) indicates that the distribution is relatively flat. 5% Trimmed Mean is 3.73 compare to original mean of 4.26.

Table 4.10 Normality Assessment of the Investment Size Variable

		Statistic	**Std. Error**
Mean		$23.8818	$4.64020
95% Confidence for Mean	Lower Bound	$14.7332	
	Upper Bound	$33.0305	
5% Trimmed Mean		$12.3741	
Median		$4.1350	
Variance		4435.477	
Std. Deviation		$66.59937	
Minimum		$.00	
Maximum		$580.00	
Range		$580.00	
Interquartile Range		$19.37	
Skewness		5.976	.169
Kurtosis		41.350	.337

Table 4.10 shows that for the variable size of investment we have information from 206 entries, ranging in the size of investment from $.00 to $580.00 million, with a mean of $23.8818 and standard deviation of $66.59937. Positive skewness value (5.976) indicates positive skew. Positive kurtosis value (41.350) indicates that the distribution is rather peaked, with long thin tails. 5% Trimmed Mean is $12.3741 compare to original mean of $23.8818.

Table 4.11 Normality Assessment of the Year of Entry Variable

		Statistic	**Std. Error**
Mean		1997.24	.297
95% Confidence for Mean	Lower Bound	1996.66	
	Upper Bound	1997.83	
5% Trimmed Mean		1997.04	
Median		1996.50	
Variance		18.116	
Std. Deviation		4.256	
Minimum		1989	
Maximum		2011	
Range		22	
Interquartile Range		4	
Skewness		.847	.169
Kurtosis		.946	.337

Table 4.11 shows that for the variable year of entry we have information from 206 entries, ranging in year of entry from 1989 to 2011, with a mean of 1997.24 and standard deviation of 4.256. Positive skewness value (.847) indicates positive skew. Positive kurtosis value (.946) indicates that the distribution is rather peaked, with long thin tails. 5% Trimmed Mean is 1997.04 compare to original mean of 1997.24.

Table 4.12 Normality Assessment of the OECD Membership Variable

		Statistic	**Std. Error**
Mean		.34	.033
95% Confidence for Mean	Lower Bound	.27	
	Upper Bound	.41	
5% Trimmed Mean		.32	
Median		.00	
Variance		.225	
Std. Deviation		.475	
Minimum		0	
Maximum		1	
Range		1	
Interquartile Range		1	
Skewness		.681	.169
Kurtosis		-1.551	.337

Table 4.12 shows that for the variable OECD Membership we have information from 206 entries, ranging in OECD Membership from 0 to 1, with a mean of .34 and standard deviation of .475. Positive skewness value (.681) indicates positive skew. Negative kurtosis value (-1.551) indicates that the distribution is relatively flat. 5% Trimmed Mean is .27 compare to original mean of .34.

Table 4.13 Normality Assessment of the ASEAN Membership Variable

		Statistic	**Std. Error**
Mean		.53	.035
95% Confidence for Mean	Lower Bound	.46	
	Upper Bound	.60	
5% Trimmed Mean		.53	
Median		1.00	
Variance		.250	
Std. Deviation		.500	
Minimum		0	
Maximum		1	
Range		1	
Interquartile Range		1	
Skewness		-.118	-.169
Kurtosis		-2.006	.337

Table 4.13 shows that for the variable ASEAN Membership we have information from 206 entries, ranging in ASEAN Membership from 0 to 1, with a mean of .53 and standard deviation of .500. Negative skewness value (-.118) indicates a clustering of scores at the high end. Negative kurtosis value (-2.006) indicates that the distribution is relatively flat. 5% Trimmed Mean is .46 compare to original mean of .53.

Table 4.14 Normality Assessment of the GDP Growth Variable

		Statistic	**Std. Error**
Mean		18.9689	.71672
95% Confidence for Mean	Lower Bound	17.5558	
	Upper Bound	20.3820	
5% Trimmed Mean		19.7201	
Median		20.4000	
Variance		105.821	
Std. Deviation		10.28693	
Minimum		-16.50	
Maximum		37.10	
Range		53.60	
Interquartile Range		7.40	
Skewness		-1.299	.169
Kurtosis		3.279	.337

Table 4.14 shows that for the variable GDP Growth we have information from 206 entries, ranging in GDP Growth from -16.50 to 37.10, with a mean of 18.9689 and standard deviation of 10.28693. Negative skewness value (-1.299) indicates a clustering of scores at the high end. Positive kurtosis value (3.279) indicates that the distribution is rather peaked, with long thin tails. 5% Trimmed Mean is 19.7201 compare to original mean of 18.9689.

Table 4.15 Extreme Values for Size of Investment

		Case Number	ID	Value (millions USD)
Highest	1	178	227	$580.00
	2	143	162	$521.00
	3	172	217	$342.50
	4	179	228	$290.00
	5	194	249	$196.20
Lowest	1	189	244	$0.00
	2	177	226	$0.00
	3	169	214	$0.00
	4	167	204	$0.00
	5	165	202	$0.00

The Table 4.15 shows the most extreme cases for size of investment variable.

Table 4.16 Extreme Values for GDP Growth

		Case Number	ID	Value
Highest	1	59	75	37.10
	2	143	171	37.10
	3	156	187	37.10
	4	165	202	37.10
	5	166	203	37.10
Lowest	1	169	214	-16.50
	2	119	146	-16.50
	3	177	226	-11.70
	4	125	152	-11.70
	5	120	147	-11.70

The Table 4.16 shows the most extreme cases for GDP growth variable.

The Kolmogorov-Smirnov statistic assesses the normality of the distribution of scores (Pallant, 2002).

Table 4.17 Tests of Normality

	Kolmogorov-Smirnov			**Shapiro-Wilk**		
	Statistic	Df	Sig.	Statistic	df	Sig.
Country	.161	206	.000	.818	206	.000
Sector	.257	206	.000	.784	206	.000
Size of Investment	.360	206	.000	.351	206	.000
Year of Entry	.183	206	.000	.940	206	.000
OECD Member	.423	206	.000	.598	206	.000
ASEAN Member	.356	206	.000	.635	206	.000
GDP Growth	.201	206	.000	.818	206	.000
FDI Inflow	.378	206	.000	.629	206	.000

*Significant at or below 0.05 level.

Table 4.17 presents Sig. value is .000 for each variable, suggesting violation of the assumption of normality. It is usual situation with larger (200+) samples (Pallant, 2002).

4.4 Hypotheses Testing by Binomial Logistic Regression

This section described the process of analysis of collected data using binomial logistic regression.

Table 4.18 Case Processing Summary

		N	**Percent**
Selected Cases	Included in Analysis	205	99.5
	Missing Cases	1	.5
	Total	206	100.0
Unselected Cases		0	0
Total		206	100.0

Table 4.18 shows that we have included 205 cases in analysis. One case wasn't included due to lack of information for the entry mode.

Table 4.19 Dependent Variable Coding

Original Value	Internal Value
Sole Venture	0
Joint Venture	1

As shown in the Table 4.19 and mentioned in chapter 3, our dependent variable is an entry mode. Therefore a sole venture entry mode was coded 0 and a joint venture entry mode was coded 1.

Table 4.20 Categorical Variables Coding

			Parameter Coding								
		Frequency	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
Country	Singapore	41	0	0	0	0	0	0	0	0	0
	China	19	1	0	0	0	0	0	0	0	0
	Thailand	29	0	1	0	0	0	0	0	0	0
	British Virgin Islands	7	0	0	1	0	0	0	0	0	0
	Hong Kong	19	0	0	0	1	0	0	0	0	0
	Japan	23	0	0	0	0	1	0	0	0	0
	Malaysia	21	0	0	0	0	0	1	0	0	0
	UK	13	0	0	0	0	0	0	1	0	0
	Korea	24	0	0	0	0	0	0	0	1	0
	Canada	9	0	0	0	0	0	0	0	0	1
Sector	Manufacturing	94	0	0	0	0	0	0	0	0	0
	Hotel and Tourism	35	1	0	0	0	0	0	0		
	Hydro Power	5	0	1	0	0	0	0	0		
	Livestock and Fisheries	12	0	0	1	0	0	0	0		
	Mining	14	0	0	0	1	0	0	0		
	Oil and Gas	22	0	0	0	0	1	0	0		
	Real Estate	12	0	0	0	0	0	1	0		
	Transport and Communication	11	0	0	0	0	0	0	1		
OECD Member	No	136	.0								
	Yes	69	1.0								
ASEAN Member	Yes	97	.0								
	No	108	1.0								

The table 4.20 shows that we don't have groups of categorical variables with low frequencies. Originally data set of 262 companies included information regarding countries and sectors with less 5 observations. Such observations were excluded from the analysis.

Table 4.21 Classification Table

Observed			Predicted		
			Entry Mode		Percentage Correct
			Sole Venture	Joint Venture	
Step 0	Entry Mode	Sole Venture	108	0	100.0
		Joint Venture	97	0	0.0
	Overall Percentage				52.7

The Table 4.21 represents the results of the analysis without any of our independent variables included in the model. In this table the overall percentage of correctly classified cases is 52.7 per cent.

The Omnibus Testes of Model Coefficients provides an indication of how well the model performs, over and above the results obtained with no predictors entered in the model (Pallant, 2002).

Table 4.22 Omnibus Tests of Model Coefficients

		Chi-square	Df	Sig.
Step 1	Step	56.205	21	.000
	Block	56.205	21	.000
	Model	56.205	21	.000

The table 4.22 shows that with included set of predictor variables a significant value of the model is high: .000, which means the significance value is less than .05. The chi-square value is 56.205 with 21 degrees of freedom.

The Hosmer and Lemeshow Test is the another test of model fit (Pallant, 2002).

Table 4.23 Hosmer and Lemeshow Test of Model

Step	Chi-square	Df	Sig.
1	5.997	8	.648

The table 23 indicates support for our model, because a significance value is higher than .05 and chi-square value for the Hosmer-Lemeshow Test is 10.019.

The Cox & Snell R^2 and the Nagelkerke R^2 values provide an indication of the number of variation on the dependent variable explained by the model, with a minimum value of 0 and a maximum value of 1 (Pallant, 2002).

Table 4.24 Model Summary

Step	-2log likelihood	Cox & Snell R^2	Nagelkerke R^2
1	227.395	.240	.320

As per the Table 4.24 provides that the Cox & Snell R square is .240 and the Nagelkerke R square is .320. It means that between 24% and 32% of the variability is explained by this set of variables.

The Classification Table provides an indication of how well the model is able to predict the correct category for each observation (Pallant, 2002). In case of this study the category predicted was sole venture/joint venture.

Table 4.25 Classification Table of Model

Observed			Predicted		
			Entry Mode		Percentage Correct
			Sole Venture	Joint Venture	
Step 0	Entry Mode	Sole Venture	84	24	77.8
		Joint Venture	39	58	59.8
Overall Percentage					69.3

According to the Table 4.25 the model correctly classified 69.3 per cent of cases overall, an improvement over 52.7 per cent as in the Table 4.19.

The Variables in the Equation table provided information about the contribution or importance of each of predictor variables (Pallant, 2002). The table 4.26 showed the results of tested hypotheses.

Table 4.26 Variables in the Equation

	B	S.E.	Wald	Df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Country			14.341	9	.111			
China	-.328	1.670	.038	1	.844	.721	.027	19.005
Thailand	-.808	.565	2.045	1	.153	.446	.147	1.349
British Virgin Islands	-.307	1.789	.029	1	.864	.736	.022	24.526
Hong Kong	-1.898	1.590	1.425	1	.233	.150	.007	3.380
Japan	-1.352	1.377	.964	1	.326	.259	.058	.797
Malaysia	-1.538	.669	5.288	1	.021	.215	.020	12.459
UK	-.693	1.641	.179	1	.673	.500	.020	12.459
Korea	-2.352	1.575	2.230	1	.135	.095	.004	2.085
Canada	-.700	1.762	.158	1	.691	.497	0.016	15.692
Sector			13.433	7	.062			
Hotel and Tourism	-1.695	.587	8.332	1	.004*	.184	.058	.580
Hydro Power	16.955	17339.322	.000	1	.999	23080629.64	.000	
Livestock and Fisheries	-1.117	.739	2.285	1	.131	.327	.077	1.393
Mining	-1.581	.910	3.020	1	.082	.206	.035	1.224
Oil and Gas	-1.427	.709	4.049	1	.044	.240	.060	.964
Real Estate	-1.207	.781	2.388	1	.122	.299	.065	1.382
Transport and Communication	.174	.741	.055	1	.814	1.190	.278	5.091
SI	.005	.003	2.237	1	.135	1.005	.999	1.011
YR	.268	.093	8.395	1	.004*	1.308	1.091	1.568
ASEAN(1)	.827	1.481	.312	1	.577	2.286	.125	41.676
GDP Growth	-.086	.030	8.452	1	.004*	.917	.865	.972
FDI Inflow	-1.577	.425	13.741	1	.000*	.207	.090	.476
Constant	-530.918	184.195	8.308	1	.004	.000		

*Significant at or below 0.05 level.

The variables with significance value less than .05 contribute to the predictive ability of this model. In this case the significant variables are Malaysia, Hotel and Tourism, Year, GDP Growth and FDI Inflow. Size of Investment didn't contribute significantly to the model.

B values of FDI inflow and GDP growth are negative. It means that the more FDI inflow of the 3 previous years before entry in Myanmar, the less likely it is that a foreign company will invest in Myanmar as a joint venture. Also the more GDP

growth of the 3 previous years before entry in Myanmar, the less likely it is that a foreign company will invest in Myanmar as a joint venture.

H_1 (there is a positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode) was not proved.

H_2 (there is a positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode) was proved. The B coefficient demonstrated that the FDI inflow variable's increase by 1 would cause the dependent variable's decrease by 1.57 and the GDP growth variable's increase by would cause the dependent variable's decrease by 0.08. Result of H_2 test was supported by previous studies (Agarwal, 1992; 1994).

The Casewise List as shown in the Table 4.27 provided information about cases in the sample for which the model didn't fit well (Pallant, 2002).

Table 4.27 Casewise List

Case	Selected Status	Observed	Predicted	Predicted Group	Temporary Variable	
		Entry Mode			Resid	ZResid
7	S	J	.043	S	.957	4.690
29	S	J	.099	S	.901	3.009
134	S	S	.827	J	-.827	-2.184

The Table 4.27 presents cases with ZResid values above 2 (cases 7, 29 and 134). Cases with values above 2.5 or less than -2.5 are outliers (cases 7 and 29). Cases 7 and 29 were predicted to be in the sole venture category, but in reality (in the Observed column) were found to be joint ventures.

4.5 Conclusion

Binomial logistic regression was performed to assess the impact of a number of factors on the likelihood that foreign firms would chose a sole venture entry mode for their direct investment in Myanmar. The model contained two independent variables (size of investment and market potential). The full model containing all predictors was statistically significant, X^2 (2, N=205) = 69.3, p < .001, indicating that the model was able to distinguish between foreign firms that chose a sole venture

entry mode and foreign firms that chose a joint venture entry mode. The model as a whole explained between 24% (Cox and Snell R square) and 32% (Nagelkerke R square) of the variance in entry mode choice, and correctly classified of 69.3% cases. As shown in Table 4.26, only one of the independent variables made a unique statistically contribution to the model, namely: market potential.

CHAPTER 5
SUMMARY, CONCLUSION & RECOMMENDATIONS

5.1 Summary

The purpose of this study was to analyze the impact of the ownership and the location advantage factors on firm's choice of foreign direct investment entry mode in Myanmar. In 2013 Myanmar's foreign direct investment inflow was more than four billion dollars. With about 8 per cent gross domestic product growth rate Myanmar became one of the fastest growing economies in the world. Myanmar is still an emerging market or the last frontier market in Asia. The country has been recently opened to the foreign investors in 2012 when the United States and the European Union have lifted sanctions against Myanmar. The new Constitution of 2008 promotes Myanmar's transition from the military government to the democracy. The US, the EU, Australia and Japan reset its cooperation with Myanmar. In fact political and economic reforms since 2011 boosted business activities, the foreign and domestic investments, exports of commodities, primarily natural gas and agriculture products, and private consumption. The new Foreign Investment Law of November 2012, which replaced the previous Foreign Investment Law of 1988, offered better incentives to foreign investors: foreign investors can lease land for 50 years (previously 30 years), with two possible extensions of 10 years each; a five-year tax holiday (only three years previously); and protection of foreign-owned enterprises from nationalization. Myanmar became one of the top destinations for the international investors. Meanwhile the Myanmar market is characterized by the high market potential on the one hand and the high political risk on the other hand. No studies on entry modes in Myanmar were found. Therefore it's very important to study factors that influence foreign investor's entry modes choice in Myanmar.

To accomplish this purpose it was necessary to set up a few research questions. Firstly, it became important to examine the effect of investment size on firms' choice between sole venture and joint venture in Myanmar. Secondly, it was significant to examine the effect of market potential on firms' choice between sole venture and joint venture in Myanmar. To analyze the choice between sole venture

and joint venture modes Dunning's framework was applied. Dunning's theory states that firms will choose the most appropriate form of entry into a foreign market by considering their ownership advantages of a firm, the location advantages of a market (country), and the internalization advantages of integrating transactions within the firm (Dunning, 1980). A model included an entry mode as a dependent variable and investment size and market potential as independent variables or predictors. Binomial logistic regression was used to examine relationships between investment size, market potential and choice of entry mode.

To test the above hypotheses, data was collected from the Myanmar Survey Research paper "Foreign Direct Investment Companies in Myanmar" for foreign firms that established sole venture or joint venture companies in Myanmar from 1989 to 2011. 206 investments were observed for which relevant data on the predictor variables was available. These observations covered investments from 10 foreign countries, more notably: China, Singapore, Thailand, British Virgin Islands, Hong Kong, Japan, Malaysia, the United Kingdom, South Korea and Canada. The set of 206 foreign companies came from variety of industries, more notably: agriculture, construction, hotel and tourism, hydro power, industrial estate, livestock and fisheries, manufacturing, mining, oil and gas, real estate, transport and communication.

Investment size was measured as a monetary amount of the investment (Chang, 2014). Market potential was measured by two proxy variables. The first one is a GDP growth rate during the three years before the foreign entry (Parola, 2013). The second one is FDI inflow during the three years before the foreign entry (Talay, 2009). Foreign firms invested in Myanmar were divided into two groups: sole ventures and joint ventures (Agarwal, 1994).

This chapter reports the conclusions and recommendations that resulted from this study.

5.2 Discussion

The table 5.1 presents the results of hypotheses testing by means of binomial logistic regression.

Table 5.1 Binomial Logistic Regression Predicting Likelihood of Choosing a Sole Venture Mode

	B	**S.E.**	**Wald**	**df**	**Sig.**	**Exp(B)**
Size of Investment	.005	.003	2.237	1	.135	1.005
GDP Growth	-.086	.030	8.452	1	.004	.917
FDI Inflow	-1.577	.425	13.741	1	.000	.207

5.2.1 Hypothesis 1: There is positive relationship between the size of investment and firm's likelihood of choosing a sole venture entry mode.

The main effect coefficient estimate of size of investment is not statistically significant. Therefore the relationship hypothesized in H_1 is not supported. The result is not in line with general understanding that firms having large ownership advantages choose a higher control form. Many previous studies reported a strong positive coefficient of firm's ownership advantages (Agarwal, 1994; Ramsey, 2013; Chiao, 2010; Sanchez, 2006; Herrmann, 2002; Tan, 2001). Firms with more firm-specific assets (ownership advantages) tend to enter a foreign market by means of sole venture (Chiao, 2010). Larger firms dispose larger volumes of financial resources to cover their foreign direct investments (Sanchez, 2006). The reason for not observing any relationship between size of investment and entry mode choice may be in Myanmar's legal and regulatory framework. For example the largest investments in 1989-2011 were in Myanmar's power sector and oil and gas sector which required joint venture with the Myanmar Government or a Myanmar company. Normally investing in mining, energy and oil and gas in Myanmar requires a joint venture entry mode. Also foreign persons in Myanmar, both companies and individuals, can't own land. All big investments require the use of land and foreign companies might have form joint venture to obtain a right to use the land. Therefore, even large companies that have huge financial resources had to find a local partner or form joint venture with the government. Another reason may be that sample included companies from different sectors, while a statement that larger firms prefer higher control modes is correct mostly for manufacturing sector (Leon-Darder, 2011).

5.2.2 Hypothesis 2: There is positive relationship between the market potential and firm's likelihood of choosing a sole venture entry mode.

The main effect coefficient estimate of GDP growth is negative and statically significant. The main effect coefficient estimate of FDI inflow is also negative and statically significant. The result is in line with general understanding that firms choose a higher control form in countries that have greater market potential. Many previous studies reported a strong positive coefficient of market potential (Agarval, 1994; Baena, 2013; Parola, 2013; Talay, 2009; Herrmann, 2002). Foreign companies prefer whole owned subsidiary when the target market size is attractive (Parola, 2013). Foreign firms tend to choose majority joint venture in attractive markets and they are more likely to choose minority joint venture in less attractive markets (Talay, 2009). Indeed emerging markets like Myanmar normally have fast-growing economy and therefore attract a lot of investments. High market potential increases foreign investors' confidence in investing in a target market. The largest sectors in terms of FDI inflow in Myanmar are power, oil and gas and mining sectors. Of course, production of natural resources is very profitable activity. Before 1989 all these sectors were prohibited for foreign investments. So after the Foreign Investment Law of 1989 was enacted, many foreign companies started to do business in electric power generation, oil and gas production and mining. Another attractive sector of investment was manufacturing. Low cost labor attracted particularly international garments businesses. Hotel and tourism was very attractive as well. Myanmar has a long coast line and many tourist attractions, however lacked hotels and other tourist infrastructure. Before Myanmar was not encoring inbound tourism, for example a foreigner could get only a one-day visa in Myanmar. After 1989, however, Myanmar became one of the highest tourism potential destinations. The reason for high market potential may be not only large resources, but transition from socialist economy to market oriented economy and permission of entrepreneurship and foreign investments. Experience of Cambodia, China, Lao PDR and Vietnam suggests that gradual moving to market economy in Asian countries may be very successful.

5.3 Limitations of the Study

The first limitation of this study is that it uses proxy variables to measure ownership and location advantages. Although similar proxies have been used in past research they might not be reliable and valid measures. Most of other research papers measured ownership advantages or firm-specific factors by firm size proxy variable (Agarwal, 1992, 1994; Erramilli & Rao, 1993; Taylor et al., 2000), however this paper uses investment size ownership advantage or firm-specific factor that can predict choice of entry mode. The reason to use investment size instead of firm size is a difficulty to identify the origin of investing companies. For example some registered in Myanmar companies that belong to foreign investors may not have the same name as the foreign investor's parent company. Another difficulty is that many companies invest in Myanmar through countries with relaxed tax and legal regime such as British Virgin Islands for instance. In such cases identification of a parent company may not be possible. Or a parent company may be a private company that does not have a legal requirement to disclose its financial statements. In such cases investment size may be a appropriate replacement of firm size as a variable that identifies firm's ownership advantages or firm-specific factors.

The second limitation is that this study considers foreign firms entries in Myanmar during specific period of time: since 1989 until 2011. Before 1988 Myanmar was a socialist country, entrepreneurship was illegal and foreign direct investments were restricted by law. Therefore there were no significant foreign direct investments before 1989. However in 1989 the Foreign Investment Law was enacted and many foreign companies started to establish their subsidiaries in Myanmar. So we can't study a period before 1989 due to not significant number of foreign direct investments in Myanmar. Data for foreign direct investment companies in Myanmar was available only to 2011. However it shall not be considered as an impediment of this study. The transition period in Myanmar economy, a period of sanctions may be very much interesting for examination of entry modes' predictors. Indeed, the political risk of Myanmar from 1989 till 2011 was extremely high and results of this study may be applied for other countries with transition period, countries under sanctions and countries with high political risk. For example in the end of 2014 it appeared that the United States' sanctions against Cuba may be lifted. It may

encourage more foreign direct investments in Cuba from the United States and other countries. So if the United States' sanctions are lifted the market situation in Cuba may be similar to the situation of Myanmar in 1988-89.

The third limitation of this study is that a data sample is not normal according to descriptive statistics performed in chapter 4. It may be explained by not adding enough observations to the sample.

5.4 Recommendations of the Study

A main direction for future research may be to develop measurement for ownership advantages, location advantages and internalization advantages including market potential. In this study two proxy variables for market potential were used: GDP growth rate for last three years before a year of market entry (Parola, 2013) and FDI inflow for last three years before a year of market entry (Talay, 2009). Future research papers may rely more on managers' perception of ownership advantages, location advantages and internalization advantages including market potential. To replace proxy indices questionnaire survey technique may be used. For example market potential may be measured by manager's perception of host country's growth potential and host country's market size; investment risk can be measured by managerial perception by host country authorities' policies towards foreign investors' assets and political, economic and social stability (Agarwal, 1992). However questionnaire survey technique may require huge amount of time and financial resources, hardly achievable by independent researchers.

Future research papers on entry modes in Myanmar may use the later data for foreign entries from 2011 till 2015. In 1997 the US and the EU imposed sanctions on Myanmar due to human rights' breach concerns. These sanctions were partially lifted in 2012 after Myanmar's transition to the civil administration, which caused significant growth of foreign direct investments' inflow and growth of gross domestic product. Therefore it's very interesting to study how predictors of entry mode work under the new conditions.

Future studies can include indirect investment entry modes in the model, i.e. contractual agreement (Licensing, Franchising, Alliances etc.) and exporting (Direct Export and Indirect Export).

Future research papers may use a wide range of other well described predictors: socio-cultural distance (Kogut & Singh, 1988), country risk (Erramili & Rao, 1993), contractual risk (Agarwal & Ramaswami, 1992), ability to develop differentiated products (Agarwal & Ramaswami, 1992), and multinational experience (Kogut & Singh, 1988).

5.5 Conclusion

The research paper used a quantitative study and binomial logistic regression was performed to assess the impact of a number of factors on the likelihood that foreign firms would chose a sole venture entry mode for their direct investment in Myanmar. The model contained two independent variables (size of investment and market potential). As shown in Table 5.1, only one of the independent variables made a unique statistically contribution to the model (Market Potential).

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