IMPACT OF FIRM-SPECEFIC FACTORS ON ENTERY MODE AMONG CONSTRUCTION FIRMS IN AN EMERGING ECONOMY OF LIBYA

تأثير العوامل المحددة علي نمط دخول السوق لشركات البناء الاجنبية في اقتصاد ليبيا الناشئ

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الملخص

تُستخدم استراتيجية دخول السوق الدولية لجعل دخول الشركات سوقًا أجنبية جديدة ممكنًا لتوسيع أعمالها من حيث التكنولوجيا والخدمات والموارد البشرية والموارد الأخرى. يعد التركيز على طريقة الدخول أحد العوامل المهمة في الاحتياجات لموازنة مخاطر الدخول المبكر ومشاكل فقدان الفرص نتيجة الدخول المتأخر. ستشرح هذه الدراسة العوامل الخاصة بكل بلد (حماية المعرفة، التكامل العالمي، تجربة البلد المضيف) التي تؤثر على طريقة دخول شركات البناء في ليبيا. أشارت نتائج الدراسة إلى أن حماية المعرفة وتجربة البلد المضيف كان لهما تأثير كبير وإيجابي على وضع الدخول بين الشركات في ليبيا، بينما كان للتكامل العالمي تأثير كبير وسلبي على نمط دخول الشركات في ليبيا.

Abstract

International market entry strategy is used to make the company's entering new foreign market possible to expand their businesses in terms of technology, services, human and other resources. Focusing on mode of entry is one of the important factors in needs to balance the early entry risk and problems in losing opportunities as a result of late entry. This study will explain the country-specific factors (Knowledge protection, Global integration, Host country experience) that influence on entry mode of construction companies in Libya. The findings of the study indicated that knowledge protection and Host country experience were a significant and positive influence on entry mode discision among companies in Libya while Global integration has significant and negative influence on entry mode of companies in Libya.

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1.0- Introduction

In this century no country is alone, all the countries are trading with one another, they not only sale their product to one another, they are also exchanging their human capital. Manufacturing companies, service companies' construction companies are entering in different countries and playing role in the development of the countries.This industry plays role not only in economics activates but also has considerable impact and influence on social stability, and national security. (Lin, 2008). The construction sector is an important part of a country's economy as it contributes towards the country's Gross Domestic Product (GDP).It is especially so in the case of developing countries, as it is responsible for provision of infrastructure such as roads, bridges, water, sewerage, electricity, telecommunications and even shelter.

In Libya, the construction and firms are as important as the banking sector to support the economic growth. Upon review of the literature on Libyan construction sector, no study has been found to analyze the sector for its improvement and sustenance. This sector is considered vital although it contributes about 5 percent to GDP and employs about 20 percent of the 1.6 million of the total workforce) Central Bank of Libya, 2004).

The construction industry in Libya has been reemerging after a slowdown for nearly two decades (Ngab, 2007). China's investment in Libya is smaller compared to the top ten African countries. The percentage of Chinese ODI flows in the top 10 African countries ranged from 76.06% to 98.71% during the same period, while the percentage in Libya is less than 1%; Libya ranked out of the top 20 most years. Chinese firms are avoiding entering in Libya because of country risk and it is not a major destination for Chinese investment, despite the fact that it is an oil-rich, high-income country.

There are several previous studies which are conducting on entry mode of firms in western countries but only one study of Zhang and Wei (2011) is conducted in Libya on political risk faced by constructing companies in Libya, this study does not include the entry mode of companies.

This research tries to add to the body of knowledge in the area of entry mode among firms and extends our knowledge of the factors affecting entry mode by construction companies in Libya. Therefore, this study seeks to achieve the following objectives:

1- To examine the important firm-specific factors (Knowledge protection, Global integration, Host country experience) of entry mode of construction companies in an emerging economic of Libya.

2- To determine the relationship between (Knowledge protection, Global integration, Host country experience) and entry mode of construction companies in an emerging economic of Libya.

3- To investigate the relationship between firm-specific factors and entry mode of construction companies in an emerging economy of Libya.

2.0- LITERATURE REVIEW

2.1- Entry Mode

Entry mode is an institutional arrangement for organizing and conducting international business transaction and in simple terms, a decision on how to can enter the market. However, each entry mode comes with its own risks and benefits. Hence, the decision on entry mode to be chosen depends on the internal factors related to the

companies' weaknesses and strengths. Moreover, there are also external factors related to the international market environment affecting the entry mode choices such as, the threats and opportunities. Some of the entry modes are known as wholly owned subsidiary, project joint venture, equity joint venture, exporting joint venture, alliances, licensing franchising and Foreign Direct Investment (FDI) (Chen & Chang, 2011, Yean, Ling, Ibbs, &Kumaraswamy, 2005).

2.2- FOREIGN MARKET ENTRY MODES

Root (1987) characterized entry mode as "an institutional course of action that makes conceivable the passage of an organization's items, innovation, human abilities, administration, or different assets into an outside nation". It is an institutional course of action for sorting out and leading worldwide business exchanges, for example, legally binding exchanges, joint endeavors, and entirely possessed operations (Root 1987; Erramilli and Rao 1993). The entry mode that a firm may like to pick as the strategy for its remote operation will decide the level of contribution, control, danger, and asset responsibility (Anderson and Gattignon 1986; Erramilli and Roa 1993). Wind and Perlmutter (1977) kept up that the decision of business sector passage mode has awesome effect on universal operations, which can be seen as a prime issue in international marketing. A firm can choose to utilize any of the operation modes, which extend from sending out to entirely claimed auxiliary with changing degrees of asset duty and in addition hazard introduction (Douglas and Craig 1987).

2.3- Firm and market Risk

As turmoil has persisted and increased in severity, many companies in Libya have ceased operations, resulting in a break in the upstream and downstream linkages. This had negative effects on market order, ranging from accounts payable arrears to loss of customers. Losses included balance of contract losses, loss of local savings, loss of earnings stability and other fixed assets. Discontinuity in firm operations, serious social security issues and wage default have raised the risk of labor unrest, leading to unemployment and expatriate evacuation.

2.4- Project Risk and entry of firm in Libya

China has 75 firms investing in Libya. With more than 50 projects including a total project contract, the total dollar amount is about US$18.8 billion. In fact, most of these projects were housing and infrastructure construction, sponsored by the government of Libyan. As the Libyan government played a significant role as a bailsman in the housing sector from 1970 until 1995 (Sheibani&Havard, 2005), the political risk of government stability impacted the housing projects and other infrastructure projects. After unrest spread, 27 firms on site in Libya suffered robberies and camp attacks, causing injures to some Chinese employees, with direct economic losses of CNY 15 billion. In this bad situation the international firms are becoming afraid to enter in Libya.

2.5- Constructors

Almost all Chinese constructors reported that their Libyan camps had experienced serious attacks, project risk, country risk, industry risk, environmental uncertainty and armed robbery from the unrest after the eruption of the Libyan crisis and were forced to leave and discourage to enter in Libya. This worse environment not only discourage the international chines companies but also to other companies which influenced badly to the Libya economic.

Chinese constructors used to stress commercial risk management rather than political risk management of overseas construction before the Libyan crisis. This overseas emergency pressed the Chinese government, constructors, associations, and insurance companies to deal with the issue concertedly.

2.6- Firm-Specific Factors
2.6.1- Knowledge protection.

Protecting a company's proprietary competencies (e.g., technology, knowhow, brand names, trademarks, copyrights, patents, etc.) constitutes one of the predominant managerial tasks for venture success (Hennart, 1989; Zander and Kogut, 1995). A company unnecessarily exposing its critical resources may accidentally provide its partner firm with an advantage in the future and lose the organizational capability to bolster a sustained competitive edge (Collis, 1991). The wholly owned choice will better protect a firm's tacit knowledge and strategic resources than the cooperative mode.

Dunning (1980) found that an internalized entry mode protects ownership-specific assets and creates maximum payoff from ownership-specific advantages. Full ownership helps ensure the best deployment of an MNE's strategic assets without giving rise to uncompensated leakage to the partner or other local businesses and increases the company's ability to create greater payoff from allocating assets in a new territory (Yan and Gray,1994). Among entry mode choices, the greater the tastiness of proprietary knowledge or the perceived economic rents to be gained from such knowledge, the greater the need to maintain integrated control. Thus:

2.6.2- Global integration

Entry mode choice can help balance global integration with local responsiveness (Doz and Prahalad, 1991). Entry mode selection is one of the major tools for implementing an MNE's transnational strategies, where both local responsiveness and global integration are needed for a diversified business (Roth, 1992).

According to Dunning's (1980) OLI paradigm, a full ownership entry mode is the most important mechanism for internalizing global businesses. The wholly-owned mode enables the investor to control venture activities, hence facilitating an internalization of geographically dispersed businesses within an integrated network (Ghoshal and Nohria, 1989). It can also stimulate operational synergies derived from vertical integration, information transfer, production movement and political power (Kogut, 1985) and financial synergies resulting from transfer pricing, risk diversification, tax avoidance, profit margin increase, and capital structure improvement (Kobrin, 1991). If integration is less necessary, ownership control will be less imperative and the joint venture mode will be selected. Thus:

2.6-3- Host country experience.

Host country experience enhances the ability of MNE managers to process, scan, and analyses information about a new territory, thus improving the scope of bounded rationality and mitigating transaction costs (Williamson, 1985). Experience also reduces the uncertainty associated with assessing the probable economic worth of entering a foreign market (Barkema and Vermeulen, 1998) and strengthens the ability

to stabilize business operations in an uncertain environment (Luo and Peng, 1999). It follows, therefore, that MNEs with little or no experience with a target host market will try to limit risk exposure (Chang, 1995).

In this circumstance, selecting the joint venture mode is preferable because it not only reduces the firm's resource risk-taking and commitment but also facilitates learning through interaction and cooperation with local firms (Barkema et al.,1996). It is generally more costly and takes longer for MNEs to develop host country-specific knowledge when using wholly foreign-owned subsidiaries than those that are learning from joint venture partners (Erramilli, 1991; Hamel, 1991). Commercial practices and business culture, and networking tactics are culture specific

(Luo and Peng, 1999). Cultivating good relationships with various governmental authorities is essential yet challenging (Xin and Pearce, 1996). Under these circumstances, a local partner's country-specific knowledge is of strategic importance to foreign companies with little experience in the host country (Inkpen and Beamish, 1997). In contrast, MNEs with significant host country experience may prefer wholly-owned subsidiaries. This ensures a maximum payoff earned from an MNE's distinctive experience. When an MNE has acquired enough experience about an emerging economy, the economic rationale for partnering with local firms is reduced (Luo, 1997).

Independent variables   **dependent variable**
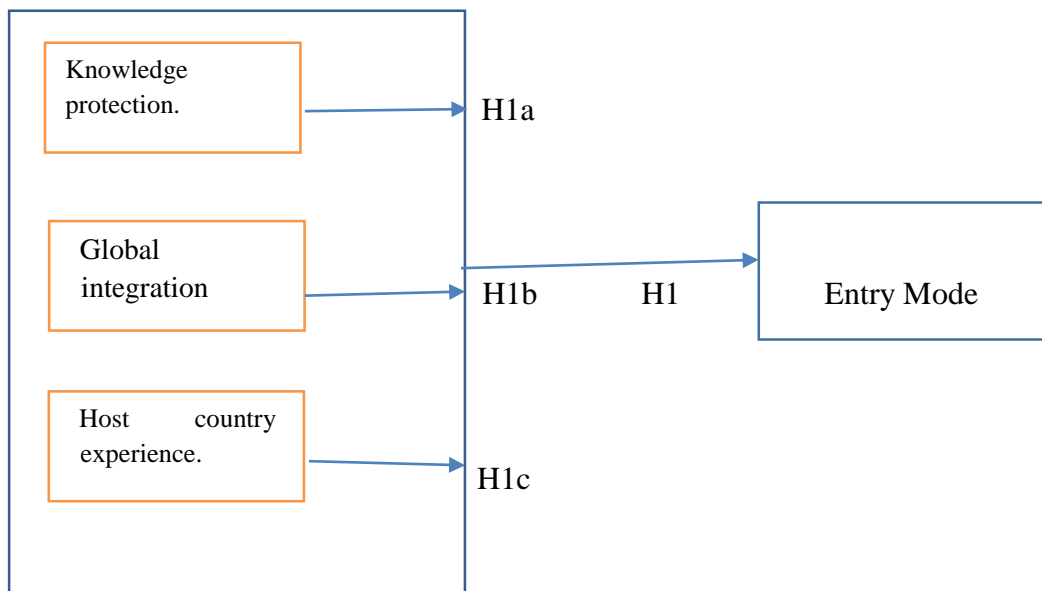
Country-Specific Factors   **Entry Mode**

Figure 1 Conceptual Framework and Hypotheses

2.7- Research Hypotheses

H1: Firm-specific Factors have s significant and positive influence on entry mode of construction companies in Libya

H1a: Knowledge protection has a significant and positive influence on the entry mode of construction companies in Libya

H1b: Global integration has a significant and positive influence on the entry mode of construction companies in Libya

H1c: Host country experiencehas a significant and positive influence on the entry mode of construction companies in Libya

3.0- Methodology and Results

3.1- Sample Selection

Data was collected via a self-administrated questionnaire survey using convenience sampling. Accordingly, the study found that the conveniences sampling was used and random drawn as a customer's entered the banks. The study found that the convenience sampling method is widely used in the previous studies. The total number of distributed surveys questionnaire was 301. Of the 301 surveys, 229 questionnaires were returned which represent approximately 71% response rate. Due to large cases of missing values, 22 questionnaires were excluded from the analysis and 8 questionnares were outlier thus, a total of 199usable questionnaires were used, approximitely 68% is response rate.Table 1 shows the summary of data collection and response rate

Table 1 Summary of Data Collection and Response Rate

Responses	Total
Distributed questionnaires	301
Unreturned questionnaires	70
Returned questionnaires	229
Uncompleted questionnaires	22
Outlier	8
Usable questionnaires	199
Response rate	68%

3.2- Descriptive Statistics for Constructs

Mean and standard deviation (S.D) of the measurement scales were calculated. This study used a five–point Likert scale ranging from "1" strongly disagree to "5" strongly agree. The main goal of the study is to examine the important factors that influence on entry mode among construction companies in Libya. Table 3 shows that the highest mean is entry mode with 3.68 out of a maximum 5. However, host country experience has the lowest mean with 2.292 out of a maximum 5 (less than 3). Furthermore, Knowledge protection has 2.297 and global integration has 2.652 (less than 3) as well as the mean of these values (overall mean) is 2.732. In addition, the standard deviations (S.D) for all variables range from 0.344 to 0.960, which reflects existence of considerable acceptable variability within the data set. Table 1 presents descriptive statistics for all constructs.

Table 1 Descriptive Statistics for all Constructs

Variables	Code	Number of Items	Mean	S.D.
Entry Mode	EN	5	3.687	0.661
Firm-specific factors	FSF		2.601	0.721
Knowledge protection.	GI	4	2.297	0.960
Global integration	GI	5	2.652	0.809
Host country experience.	HCE	11	2.292	0.344
Total		25	2.732	0.739

3.3- Validity and Reliability

This study shows reliability was conducted.   The current study indicates the reliability (Cronbach's alpha) value ranged from 0.781 to 0.896 Therefore, all values for reliability constructs were greater than the recommended value of above 0.60. Table 2 below presents reliability (Cronbach's alpha) for the constructs.

Table 4.18 also shows that the results of the Average Variance Extracted (AVE) test for all the constructs were below the recommended value of .50 (Fronell&Larcker, 1981). Therefore, the discriminant validity was supported and thus, all constructs for this study supported discriminant validity. Table 4.18 presents discriminant validity of the constructs.

Table 2
Cornbach's alpha for the Constructs

Name of Construct	Number of items	Cronbach's alpha	AVE
Entry Mode	5	0.802	0.721
Knowledge protection.	4	0.874	0.629
Global integration	4	0.781	0.537
Host country experience.	3	0.896	0.624
Total	16	0.870	0.612

3.4- Test of the Hypotheses

Multiple regression analysis was carried out to analyze the relationship between one dependent variable (entry mode) to several independent variables (Knowledge protection, Global integration, Host country experience). Therefore, multiple regression analysis was an appropriate method to examine the relationship between independent variables and dependent variable in this study. In order to assess the model, the adjust R-square test was utilized to determine the proportion of mean variance of dependent variable that explained by the independent variables. Table 4 shows the adjusted R Square test. We can recognize that country-specific factors (Knowledge protection, Global integration, Host country

experience) influence on entry mode among construction companies in Libya by 47% Adjusted R-Square test result of 0.474.

Table 3 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.689ᵃ	.474	.445	.06505	1.791

a. Predictors: (Constant), Knowledge protection, Global integration, Host country experience).
b. Dependent Variable: Entry Mode

The following Table displays the unstandardized regression coefficients (B) and standardized coefficient beta coefficients (B) and standardized β and t test, which guide the researcher to make decisions on the sort of relationship among investigated variables.

According to the Table 4, the results reveal that: The standardized coefficient (Beta) values for Firm-Specific Factors has a significant and positive effect on the entry mode of construction companies in Libya (β= .614; T= 7.551; p= .000), so H1 is supported. Furthermore, knowledge protection has a significant and positive influence on entry mode (β = .197; T= 2.011; p= .000). Therefore, H1a is supported. However, Global integration has significant and negative influence on entry mode of companies in Libya (β = -.453.; T= -8.373; p = .000). So, H1b is supported. Finally, Host country experience has significant and positive effect on entry mode (β =-.261; T = 3.602; p= 0.000). Thus, H1c is supported.

Table 4 Hypotheses Testing of Results Model (Main-Hypotheses)

Constructs		Code	Unstandardized Coefficients		Standardized Coefficients	t	p-value	
			B	Std. Error	Beta			
	(Constant)		4.396	.243		18.098	.000	
H1	Firm-Specific Factors	CSF	583	.076	.614	7.551	.000	Supported
H1a	Knowledge protection	KP	.176	.088	.216	2.011	.000	Supported
H1b	Global integration	GI	-.569	.104	-.453	-8.373	.000	Supported
H1c	Host country experience.	HCE	.231	.042	.261	3.602	.000	Supported

a. Dependent Variable: Entry Mode

4.0-   Duscusion and Cocclusion

Empirical evidence set in an emerging market (Libya) validates that each of this level has some important determinants affecting the entry mode decision. This study finds that companies in Libya tend to choose the joint venture mode when perceived governmental intervention or environmental uncertainty in an emerging market is high. Although industry growth is not related to entry mode choosing, growth in the number of companies in an industry is associated with a preference for the wholly-owned entry mode.Furtermore, the likelihood of choosing the wholly-owned mode is positively

associated with an mtlitible international firms for host-country experience or its need for global integration or knowledge protection. Superiorexperience and knowledge about a host country leads to a preference for the wholly-owned mode. Moreover, understanding of international entry strategies into emerging markets like Libya remains not completing . Future research should make longitudinal assessments of factors underlying entry mode choocing, as we do not know whether or not the key results found in this study are ephemeral in nature, and thus time-specific, within a dynamic and transitional setting. The choice of entry mode depends on a multiplicity of variables such as the contingencies of both the company's domestic country and the host country, the characteristics of the parent company, the strategy of the operation and the situation in the industry. In conclusion, the findings from this research offer valuable information to construction firms in developing the entry mode strategies in their international market expansion.

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