

A TRANSACTION COST ANALYSIS OF MARKET ENTRY MODES IN THE ADVERTISING INDUSTRY: LOGISTICS ANALYSIS

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Abstract

While the service industry is a growing part of the global economy, studies on determinations of the market entry mode in the service area are just starting to appear in the academic research arena. Further, some of the earlier studies in this area grouped different service industries into a single study, although the nature of service industries widely varies from product to capital requirements. Subsequently, one entry mode model may fit one industry while the same entry mode model may not fit another industry. This study differs from past studies in that it uses the transaction cost theory to examine the entry mode choice and focuses on one industry – advertising – within the overall service industry. The transaction cost tenants of asset specificity, external as well as internal uncertainty, and a number of control variables are explored using a world-wide sample of 358 cases to examine why some companies elect equity modes of entry over non-equity modes of entry. The outcome of the test reveals several interesting results.

Two of the four tenants of the transaction cost theory found no significant results. Socio-cultural distance and the size of the foreign business community are not significantly related, while country risk and degree of internationalization appear to explain entry mode selection behavior. However control variables – subsidiary profitability, size of the market, and size of the firm – did provide additional explanatory information. The authors suggest that the development of an internationalization model specific to the advertising industry be developed that incorporates factors other than those postulated by the transaction cost theory.