

## Determinants of entry mode and its impact on export performance: An empirical evidence from Tunisian exporters

Abir Zouari <sup>1\*</sup>, Romdhane Khemakhem <sup>2</sup>

<sup>1</sup> University of Sfax (Tunisia), [Abir\\_zouari@yahoo.fr](mailto:Abir_zouari@yahoo.fr) 

<sup>2</sup> University of Sfax (Tunisia), [rm.khemakhem@gmail.com](mailto:rm.khemakhem@gmail.com) 

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### Abstract

Research in international marketing literature has largely been interested in the choice of the entry mode into foreign markets. However, such critical decisions still need more investigation. Referring to transaction cost theory, this study tests the impact of variables related to product and external uncertainties on the entry mode decision and then the impact of this latter on the firm's export performance. For this reason, data were collected using a questionnaire administered to 240 Tunisian exporting firms. Results showed that adaptation after sales services, product characteristics, and barriers affect the choice of the entry mode. They also show that this has an impact on export performance..

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### Keywords:

Entry mode;  
Export performance;  
Export;

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\* Corresponding author

## 1. INTRODUCTION

Several authors still claimed the importance of the choice of international distribution channel, considering it a critical decision for managers (Morschett et al., 2010; Brouthers, 2013; Hollender et al., 2017) and affecting the firm's export performance (Brouthers, 2013; Arasa and Gideon, 2015; Pineda et al., 2017). Different entry modes may be adopted, classified into export and non-export modes. More specifically, they are export, joint venture, transfer of license, acquisition, and greenfield investment (Zekiri and Angelova, 2011; El-Gohary et al., 2013). Theoretically, exporting remains the most popular way to enter foreign markets (Wang and Ma, 2018; Boso et al., 2019). It has been the subject of several studies that, according to Ortigueira-Sánchez et al. (2022), remain relevant. Šlogar and Bezić (2019) consider it one of the dimensions of a country's economic growth, and its success depends on achieving export goals. This success is known in international marketing literature as export performance. It occupied a privileged place either when drawing up the firm's marketing strategy or in theoretical studies. So, export performance is still considered a dominant topic in marketing research (Sousa et al., 2008; Gao et al., 2010; Ulrich et al., 2012; Beleska-Spasova, 2014; Sadeghi et al., 2021).

Different authors have claimed the relationship of dependency between the export performance and the choice of the entry mode (Root, 1994; Ekeledo and Sivakumar, 2004; Oliveira et al. 2018). More specifically, scholars have studied the link between the entry mode selected and the performance as well as the achievement of the company's goals on foreign markets (Hill et al. 1990; Davis et al. 2000). This relationship has been studied theoretically on SMEs context (Chen and Hu, 2002; Brouthers and

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Nakos, 2004 ; Rasheed, 2005) but Chen et al. (2016) concluded that researchers may focus more into export performance.

From this view and in light of previous studies, this paper, foremost, supports the extant research. It aims at explaining the impact of entry mode choice on export performance of Tunisian firms. Indeed, these firms are almost SMEs that considered, in international marketing, as a very important element for the economic growth either in developed or in developing countries (Edeh et al. 2020). In Tunisia, exports represent 48.6% of GDP in 2019 (World Bank, 2023) and SMEs represent 80% of the total of Tunisian economic exchanges. Thus, achieving this aim requires, firstly the identification of determinants of the choice of an entry mode and their effects on the decision. In a second step, the existence of a relationship between the international distribution channel and export performance will be verified. Therefore, this investigation is an attempt that focuses on answering the following research questions: What are the determinants of the choice of an entry mode for a Tunisian SME? What is the impact of the entry mode on performance of SMEs from an emerging country?

This paper will be presented as follows: Firstly, we will present an overview of the theoretical framework: the entry modes, especially the export modes, and their relation to TCA and export performance. Secondly, we develop our research model and hypotheses. Then, we present our methodology and the analysis suggested. Finally, we present results and discuss them before concluding with implications and directions for future research.

## 2. Literature revue

### 2.1 Entry mode

Entry mode has been initially defined by Root (1994, p. 24) as "an institutional arrangement that makes possible the entry of a company's products, technology, human skills, management, or other resources into a foreign country". Firms can choose between many forms of entry mode to enter foreign markets. Pan and Tse (2000) distinguished between equity modes, including joint ventures and wholly owned subsidiaries, and non-equity modes, including export and contractual entry modes. Exporting represents the first step of the internationalization process (Boso et al. 2018). It requires low investments and generates a low level of risk, but in return, it provides operational control for companies and some sufficient marketing control (Leonidas and Leonidou, 2014). Export entry modes can be classified into direct and indirect export modes, distinguished in terms of the level of forward integration into exporting activities. Moreover, for Golovko and Valentini (2011), it is rapidly becoming a vital tool in order to ensure firm growth.

Transaction costs analysis (TCA) appears to be effective when explaining vertical integration decisions (Erramilli and Rao, 1993). Indeed, transaction costs may help firms choose between two types of governance structures. These are the ex ante costs of looking for a partner and establishing and negotiating a contract, as well as the ex post costs of monitoring the company's performance and enforcing the behavior of contracting parties. Different authors suggest that the company may choose entry modes that minimize these costs, which increase control costs (Zhao et al., 2004; Chen et al., 2009; Hollensen et al., 2011).

## **2.2 Export performance**

Since the pioneering work of Tookey (1964), studies on export performance have increased interest in identifying its determinants and measurements (Katsikeas et al., 2000; Sousa, 2004; Sousa et al., 2008; Behyan, 2011; Ulrich et al., 2012; Beleska-Spasova, 2014). Therefore, its operational and conceptual definition is a little vague (Cavusgil and Zou, 1994; Katsikeas et al., 2000; Beleska-Spasova, 2014) and poorly assimilated, but it remains a very important issue, drawing more and more attention in recent decades (Ulrich et al., 2012).

Although there are numerous studies on export performance, there is no single accepted definition (Chen et al. 2016; Sadeghi et al. 2021). It was assimilated as a "black box" (Lu and Beamish, 2006) since there are multiple motivations and objectives that line up with the company's internationalization strategy. Moreover, it was considered a multidimensional construct (Lu and Beamish, 2006; Carneiro et al., 2012; Leonidas and Leonidou, 2014), complex, and difficult to measure (Brouthers et al., 2009).

Despite the existence of different measures of performance (Lee and Yang, 1990; Papadopoulos and Martin, 2010), literature distinguishes between two main categories that are most often used (Papadopoulos and Martin, 2010; Sadeghi et al., 2021). On the one hand, there are the economic or financial measures (Cavusgil and Zou, 1994; Katsikeas et al., 2000), including export sales, profitability, and profits from export (Peng and York, 2001; Singh, 2009; Oliveira et al., 2012). On the other hand, there are non-economic or strategic measures (Cavusgil and Zou, 1994; Katsikeas et al., 2000) based on the achievement of the strategic

objective of export (Ulrich et al., 2012), which may be expressed by the broad market, competitiveness, market share, and so forth (Oliveira et al., 2012). In addition, this literature has identified numerous factors affecting international performance (Carneiro et al. 2012; Ulrich et al. 2012; Moghaddam et al. 2012; Shavazi et al. 2015). It includes variables related to the external environment (market structure, industry type, and so forth), the firm characteristics (risk aversion degree, organizational culture, ability to access scarce resources, and so forth), and variables related to the firm strategy (e.g., strategic planning process) (Carneiro et al. 2012). Brouthers et al. (2009) grouped these factors into controllable factors (export marketing strategy and management attitudes and perceptions) and uncontrollable factors (firm characteristics and managerial aspects).

### **3. Hypothesis development**

#### **3.1 Product-specific assets and the decision of the foreign market entry mode**

The presence of transaction-specific assets is the most important determinant of default situations from a transaction cost perspective (Williamson, 2007; Khemakhem, 2010). These are irreversible investments. They are numerous and have various types like site specificity, physical asset specificity, human asset specificity, dedicated assets, brand equity, and temporal asset specificity (Williamson, 2007). Firm asset specificity is considered high only if it does not require particular technological or managerial knowledge (Brouthers, 2002; Puck et al., 2009). Literature has shown that the firm tends to integrate its activities when its asset specificity is high (Erramilli and Rao, 1993; Whitelock, 2002; Chen and Mujtaba, 2007). Therefore, a positive relationship between asset specificity and the preference for highly integrated entry modes has been identified and

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verified (Anderson and Gatignon, 1986; Erramilli and Rao, 1993; Deng, 2003).

Product-specific assets are related to all investments that the company makes in its products in order to make them more competitive and beneficial. These investments concern the technical characteristics of a product, its degree of differentiation, and its complexity (Khemakhem, 2010). Indeed, products show different degrees of complexity; that is to say, each one involves well-defined knowledge and a need for research and development, distinguishing it from other products (Xu et al., 2007; Peng et al., 2020). Thus, the degree of product sophistication affects the way in which firms will distribute their products.

### **H<sub>1</sub> a: Product complexity affects firm entry mode.**

To meet foreign demand, adapting products requires knowledge of overseas market conditions. For Cavusgil and Zou (1994), product adaptation refers to a firm's ability to adapt its products to the requirements of foreign markets. Therefore, in overseas markets, it is about a combination of knowledge and competences from product design, branding, or labeling (Lages et al., 2008). Nowadays, the knowledge of adapted products cannot present difficulties as it represents a competitive advantage (Hollender et al., 2017), but it can cause huge communication and working relationship problems. Moreover, it will be difficult to intercept and evaluate the performance of external agents or intermediaries. As a result, products requiring high adaptation to be successfully marketed abroad promote entry modes that bring the company close to its market (Root, 1994). Hollender et al. (2017) affirmed that product adaptation is a critical element to consider when entering foreign markets.

### **H<sub>1</sub> b: Product adaptation affects firm entry mode.**

The provision of pre- and post-sale services is one of the problems related to the product's specific characteristics, and it always seems associated with them when exported. In fact, for marketing requirements, such as a strong need for a product service or a foreign customer request for a high level of service, the firm can assign these tasks to intermediaries (Rialp et al., 2002; Rippoles and Blesa, 2017). However, and generally, the latter can offer simple services or extensive training for producers (Wu, 2015). Consequently, it is preferable that the company make its own services so it can maintain a certain degree of control.

**H<sub>1 c</sub>: The need for after sale services affects firm entry mode.**

Another factor that may influence the choice of entry mode is the product characteristics, particularly the degree of product knowledge and the scope of the brand name. Moreover, when the product is new, little known, or not known at all by foreign buyers, it is preferable that firms sell their products directly without the intervention of an independent middleman (Davidson and McFetridge, 1985). So, firms must frequently control the reputation of their brand in foreign markets to protect it from deterioration and maintain their position.

**H<sub>1 a</sub>: Product characteristics affects firm entry mode.**

### **3.2 External uncertainty and the decision of the foreign market entry mode**

Williamson (2007) defined external uncertainty as unanticipated changes in the circumstances of an exchange. In particular, they involve legal risks (such as regulatory barriers), economic fluctuations (foreign demand and competition), and social risks (such as political instability) (Quer et al. 2007; Puck et al. 2009). In fact, literature shows that when uncertainty increases, the degree of control increases, leading companies to

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choose entry modes with a high degree of control (Anderson and Gatignon, 1986). Furthermore, the firm tends to internalize transactions by opting for vertical integration that allows uncertainty absorption. Thus, in volatile environments, companies are opting for entry modes with a low degree of control in order to preserve their flexibility (Chen and Mujtaba, 2007). Literature has shown that the degree of external uncertainty affects the choice of entry mode (Brouthers and Nakos, 2004; Chen and Mujtaba, 2007), following three main aspects: market demand, competition uncertainty, and regulatory barriers.

Entry mode choice is a decision that truly depends on the competitive nature and structure of the market (Hill *et al.* 1990). Every day, markets face an environmental volatility generated by a set of fluctuations either in price or in marketing action level (Harrigan, 1985). Thus, the company is unable to predict its competitor's actions and to protect itself against the hazards that may occur by distribution contracts. However, these contracts seem costly in terms of trading and require relatively high levels of control. In such circumstances, the company enjoys some flexibility and uses fewer resources (Hill *et al.* 1990; Kim and Hwang, 1992).

### **H<sub>2</sub> a: Foreign competition affects firm entry mode.**

In addition to competition intensity, the firm is constrained by institutional environment conditions of the foreign country. These are laws and rules set by host governments (Davis *et al.* 2000; Brouthers, 2002) and the entrant should adapt to the environment changes (Meyer, 2001). Past researches have indicated that political and governmental restrictions affect the firm decision of the distribution channel and that a relationship exists between these restrictions and the degree of control of the

entry modes (Chen and Mujtaba, 2007). In this context, some policies developed by the host governments can abuse the choice of entry mode (Brouthers, 2002) such as entry barriers, quotas, tariffs... Therefore, by confronting to the entry barriers (North, 1990; Delios and Beamish, 1999), home ownership will be facilitated and the channel selection will be limited (Brouthers, 2002). In this way, literature has suggested that a relationship exists between the degree of control of entry mode and the regulatory restrictions (Chen and Mujtaba, 2007).

### **H<sub>2</sub> b: Regulatory restrictions affects firm entry mode**

In addition to these two elements, the demand conditions represent a key element of the environmental capacity of the distribution channel (Achrol and Stern, 1988). Previous researches have revealed that the demand uncertainty is linked to the entry modes (Hill *et al.* 1990). In the case where demand is high, the firm enters and expands its activities so; it chooses modes with high degree of commitment. However, generally, the company cannot predict its external product demand, which prevents it from embarking on significant investments in the host country and therefore its engagement becomes weak (Hill *et al.* 1990; Kim and Hwang, 1992).

### **H<sub>2</sub> c: Foreign market demand level affects firm entry mode.**

## **3.3 Foreign entry mode and export performance**

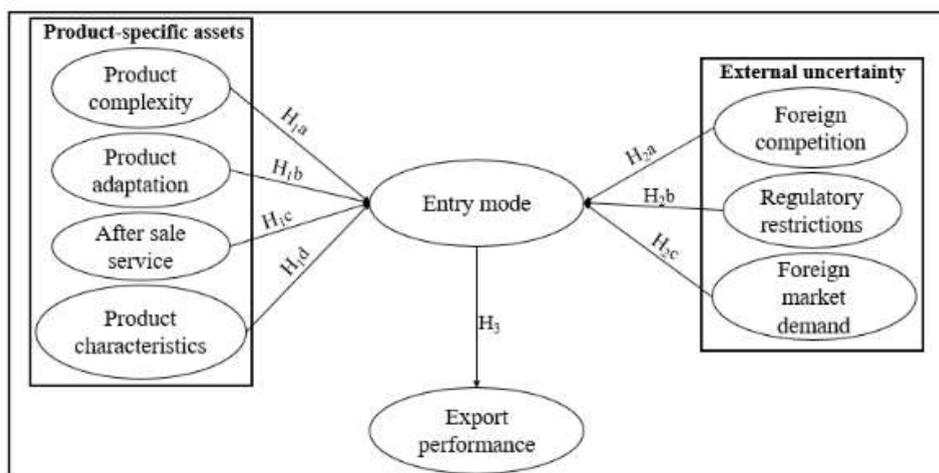
A strong relationship between success which is the major concern for any firm that wants to internationalize and the choice of entry mode has been raised (Brouthers and Nakos, 2004 ; Papadopoulos and Martin, 2010). This impact determines the degree of control that the firm possesses (Ulrich *et al.* 2012) and gives an idea about the level of performance compared to other

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modes (Chen and Hu, 2002 ; Brouthers and Nakos, 2004) but companies still tend to choose modes that offer a high return on investment (Brouthers, 2002). According to Williamson (2007), the modern transaction cost theory suggests that in imperfect markets, firms choose to minimize transaction costs and maximize the benefits of transactions when they decide to internalize (Chen and Hu, 2002). Likewise, a wrong choice can lead to an increase in transaction costs and a decrease in profits (Chen and Hu, 2002), so the firm will not be more efficient (Brouthers, 2002). This has led Anderson and Gatignon (1986) to establish their theoretical model and they concluded that the correct choice of entry mode improves company performance in the long term. So,

**H<sub>3</sub>: Entry mode chosen on the basis of TCA affects the export performance of the firm.**

**Fig.1. Conceptual model**



## 4. Methodology and analysis

### 4.1 Data collection

A sample of 240 Tunisian exporting companies was used. These firms were randomly selected from a list provided by the Journal of the Tunisian Investment Promotion Agency (2020). They employed between 1 person and more than 250 persons, operating in all industry sectors and having export experience. The firms' characteristics are presented in the table 1. Data was collected by contacting export executives, export managers, managers in each firm. They include 162 companies that export directly, and 78 export indirectly.

**Table 1.** Sample characteristics

Sector	N = 240		Entry mode	N = 240	
		%			%
Food	54	22.5	Direct export	162	67.5
Building materials	13	5.42	Indirect export	78	32.5
Metal and metallurgy	17	7.08	<b>Destination</b>		
Electronics	14	5.84	Maghreb	70	29.2
Chemical	20	8.33	Europe	158	65.8
Clothing	57	23.75	Middle East	3	1.3
Wood and Furniture	13	5.42	Africa	6	2.5
Leather and footwear	10	4.16	America	3	1.3
Various	42	17.5			

### 4.2 Measures

For the purpose of this article, we adopted scales from international marketing literature and we presented them in table 2.

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To measure product complexity, we adopted the scale of Grover and Saeed (2007) that contains four items. For product adaptation, we used the scale adopted by Brouthers and Nakos (2005) containing two items. We also adopted the three items scale of McNaughton (2002) to measure the need for pre-post sale service and the four items scale of Rondoy and Dibrell (2002) to measure product characteristics. We then adopted the scale composed of four items from the research of Brouthers et al. (2002) to measure market competition. Finally, we adopted the scale of (Yang et al., 1992) composed by three items to measure regulatory restrictions and the scale of Brouthers et al. (2002) composed by four items to measure market demand. All of the scales were measured on a 5 points Likert scale measured all of items.

In the other hand, we used a dummy variable to measure entry mode (0: Direct export and 1: Indirect export) and a proportional scale to measure export performance by *profitability* (domestic profitability / export profitability) and *export intensity* (export sales/total sales).

### 4.3 Analysis

We carried out an explanatory factor analysis in order to purify Scales using SPSS.19 software. Results of the principal component analysis were interpreted on the basis of the commonality, the test of Bartlett, the factor loading values which exceed 0.5 and the Cronbach's alpha. After purification, some items were deleted either because of their low communality value (< 0.4) or because of their low factor loading value (<0.5). Table 1 present only items with acceptable values of Cronbach's alpha as recommended by Nunnally (1967) and with which we will carry out the confirmatory analysis.

We conducted a series of confirmatory analysis using AMOS.23 to assess convergent and discriminant validity. The model fit are: Chi2/dl: 1.338, RMR=0.077, RMSEA=0.037, GFI=0.906 AGFI=0.877 CFI=0.966 TLI=0.963. For the other results, they are presented in table 1.

**Table 2.** Results of explanatory factor analysis

Items	$\Lambda$	Communality	$\alpha$	AVE	$\rho_{vc}$
<b>Product complexity</b>					
Product complexity	0.785	0.616			
Product sophistication	0.842	0.709	0.757	0,554	0.787
Technologic intensity	0.837	0.701			
<b>After sale services</b>					
Demonstration and repairs	0.878	0.770			
Maintenance services	0.910	0.827	0.776	0,611	0.855
Warranty and after sales service	0.701	0.491			
<b>Product adaptation</b>					
Product adaptation	0.840	0.705			
conditioning adaptation	0.840	0.705	0.782	0.632	0.762
<b>Product characteristics</b>					
Product knowledge	0.856	0.733			
Brand name familiarity	0.856	0.733	0.728	0.581	0.750
<b>Foreign market demand</b>					
Foreign demand potential	0.850	0.373			
Superior foreign demand	0.916	0.789			
Foreign demand growth rate	0.827	0.655	0.890	0.707	0.905
Foreign demand growth velocity	0.882	0.796			

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<b>Regulatory restrictions</b>					
High tariffs	0.879	0.773	0.700	0.657	0.780
Quotas and quantitative restrictions	0.879	0.773			
<b>Foreign competition</b>					
Strongly price competition	0.644	0.415			
Strongly quantity competition	0.799	0.638			
Number of dominant competitors	0.828	0.686	0.731	0.571	0.780
Number of competitors	0.788	0.621			

Since our main goal is to verify the effect of entry mode on company's performance, we chose to test the first part of our model by a discriminant analysis as recommended by He et al., (2016). Finally, we conducted a variance analysis to test the second part of the model as recommended by He et al., (2016). Generally, this test makes no assumption about the independent variable distribution. Therefore, it is not necessary to check its normality or linearity.

### 5. Results and discussion

Results of discriminant analysis are presented in Table 3. The consistency of the analysis was checked using the significance of the Fisher's statistic. This value must be less than 0.05 and 0.1. Our discriminant function was formulated as:  $Y = \alpha_0 + \alpha_1 * X_1 + \alpha_2 * X_2 + \dots + \alpha_{15} * X_{15}$ .

**Table 3:** Result of the discriminant analysis

	Wilks' Lambda	F-statistic	p-value
<b>Product complexity</b>	0.705	1.000	0.103
<b>After sales services</b>	0.580	4.780	***
<b>Product adaptation</b>	0.600	1.450	0.070**
<b>Product characteristics</b>	0.450	1.998	0.020*
<b>Foreign demand</b>	0.599	0.140	0.340
<b>Restrictions conditions</b>	0.480	2.120	0.023*
<b>Competition intensity</b>	0.890	0.051	0.591
<b>Significance test</b>	0.000		

\* &lt; 0.05

\*\* &lt; 0.1

The table shows that the variables needs for after sale services, product adaptation and restriction conditions have the highest and significant Fisher statistics (significance less than 0.05 and 0.1). Therefore, we can conclude that the need for after sale services and the need to adapt products affect the entry mode choice. These findings lead us to reject  $H_{1a}$  and accept  $H_{1b}$ ,  $H_{1c}$  and  $H_{1d}$  concerning product-specific assets except and they are successively consistent with the results found by Rialp *et al.* (2002), Chen and Mujtaba (2007), Khemakhem (2010). So, when Tunisian SMEs exporters opt for the delegation of pre- and post-sale services to intermediaries, they choose indirect export where there is less control. In this case, marketers must be able to choose confident agents with whom they sign arrangements. In addition, if they choose to adapt their products to the needs and hopes of foreign consumers, integrated export is preferable. Furthermore, it is recommended to have accurate knowledge about the foreign

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market needs and changes and to develop strategies facilitating the adaptation of Tunisian products to a wider context of foreign market especially the European markets.

On the other hand, our results show that all assumption regarding the external environment uncertainty were rejected, except H<sub>2b</sub>. The variable “restriction conditions” had the highest statistic of Fisher and a significance below 0.05 and 0.1. This is similar to some researchers like Delios and Beamish (1999), Meyer (2001), Brouthers (2002), Chen and Mujtaba (2007). Consequently, it seems that Tunisian exporters take into account the regulatory environment more than the fluctuation in the demand level and hard competition and they tend to choose modes with low degree of control.

Results presented by table 4 concern the logistic regression by a variance analysis. Indeed, for the profitability rate, the p-value of Levene’s test is greater than 0.005. So, we considered this test as significant; meaning that the normality assumptions and homogeneity test were checked. Moreover, the p-value of the Fisher statistic was less than 0.005 which indicated that the entry mode chosen is associated with the rate of the profitability of the firm. Thereby, the more the company respects the conditions of minimizing transaction costs when selecting its foreign market entry mode, the more it increases the chances of doing profitable operations.

In the other hand, the p-value of Levene’s test is significant since it is greater than 0.005. Thus, the normality assumptions and homogeneity tests were verified. Also, the ANOVA test was checked given that the Fisher statistic is shown with a significantly p-value less than 0.005. Those results indicated that the more the

company respects the conditions of minimizing transaction costs when selecting direct or indirect export mode, the more it increases the chances of achieving its sales and turnover goal.

Accordingly, the assumptions H<sub>3</sub> was accepted. This finding reveals that the company will be much more effective when the decision-maker takes into account the transaction costs variables (the asset specificity and the external uncertainty). This is confirmed by the research of Chen and Hu (2002), and Brouthers and Nakos (2004).

**Table 4:** ANOVA one-way results

	Levene's statistic	p-value	F- statistic	P- value
<b>Profitability rate</b>	0.010	0.780*	10.220	0.000
<b>Export intensity</b>	1.420	0.108*	7.540	0.004

*p* < 0.005

## 6. Conclusion

The entry mode is a rich topic that has captured the attention of many authors. The main purpose of this study is to test the effect of the distribution channel choice on firm's performance. Referring to transaction cost theory, this impact was found positive and these two variables seem to be dependent. Findings have showed that adaptation, pre and post-sale services and barriers are key determinants of entry mode decision. The particularity of this paper relies on the fact that we studied SMEs in an industrializing country like Tunisia. But, this does not prevent our results from being similar to past researches.

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This paper relies on the fact that it was developed from a line of research suggesting that the decision of a selection of an entry mode can be developed in a perspective that integrates various underlying approaches to many theories. This is mainly due to the limited number of studies on the choice of a foreign entry mode. Our results may help firms' decision makers in their internationalization process. In general, they are required to take their time and think carefully when choosing the way by which products will be distributed abroad, the mode that ensures firm continuity, increase in the export turnover and improvement in profitability. Given that the Tunisian economy is increasingly present in international markets, managers in its SMEs are asked to consider product specificity and environmental factors lifted for an adequate entry mode and a better financial or non-financial performance. Furthermore, it can help host governments as well as incoming governments. Indeed, foreign countries are requested to encourage exporters by implementing stimulating policies and reducing regulations that favor local production instead of export. In turn, entrants may adapt their strategies according to the imposed foreign country regulations in order to reduce risks as much as possible.

Finally, as all research paper, some limitations can be revealed. Firstly, our sample was made by firms with different size. However, it would be interesting that future researches make a comparative analysis regarding the size. Second, as Tunisia is considered as an emerging country, further researchers can replicate this model by using other samples from other developing countries, or by introducing other factors related to the firms' characteristics for example.

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