International Business Review 19 (2010) 407–418

Contents lists available at ScienceDirect

International Business Review

journal homepage: www.elsevier.com/locate/ibusrev

Host environmental uncertainty and equity-based entry mode dilemma: The role of market linking capability☆

Chiung-Hui Tseng [a,1], Ruby P. Lee [b,*]

[a] Department of Business Administration & Institute of International Business, College of Management, National Cheng Kung University, 1 Ta-Hsueh Road, Tainan 701, Taiwan, ROC
[b] Department of Marketing, College of Business, Florida State University, Tallahassee, FL 32306-1110,United States

ARTICLE INFO

Article history:
Received 13 November 2009
Received in revised form 5 March 2010
Accepted 8 March 2010

Keywords:
Emerging economies
Environmental uncertainty
Entry mode
Market linking capability

ABSTRACT

Over the last two decades or so, researchers have sought to understand foreign ownership choice of firms entering an overseas market. Interestingly, however, extant studies based on transaction cost analysis and an experience perspective have yielded inconsistent arguments as to whether wholly owned subsidiary or joint venture is more appropriate for expanding into an uncertain environment. This paper suggests that, by taking into account a firm's market linking capability, an ability to sense and manage international markets, the prior discrepancy in entry mode preference could be resolved. Hypotheses were tested using data collected from manufacturers in Taiwan, one of the fast growing emerging economies. The authors find that a multinational that has strong market linking capability is more likely to use wholly owned subsidiary to enter a foreign market that is characterized by higher levels of market turbulence and regulatory unpredictability. More results along with their implications are discussed.

© 2010 Elsevier Ltd. All rights reserved.

1. Introduction

Marketing to a foreign country is a formidable task and how to successfully enter the market is never an easy decision (for review, see Canabal & White, 2008). When expanding abroad, foreign entrants confront a wide range of obstacles such as location-specific disadvantages reflected in cultural, regulatory, and market differences (Burgel & Murray, 2000). For these firms, selecting an appropriate ownership structure (full vs. partial ownership) conducive to overcoming those inherent external challenges is one of the foremost priorities on their agenda (Barkema & Drogendijk, 2007). Full ownership, or so-called wholly owned subsidiary (WOS), involves a complete equity control by a parent firm over its foreign operations. On the other hand, partial ownership suggests that a parent firm has only a portion of equity control over its operations. The latter entry mode that allows for shared control of a venture with other firms is also called joint venture (JV). This study focuses on the entry mode choice between WOS and JV.

In the literature, the entry mode choice between WOS and JV has been documented substantially, and two primary theoretical perspectives have emerged (Canabal & White, 2008). According to transaction cost analysis (TCA) (Williamson, 1975), in the presence of a high level of environmental uncertainty, a firm should be in favor of WOS because JV is less efficient for at least three reasons (e.g., Hennart, 1989). First, multinationals need to expend more efforts to search and

☆ The authors acknowledge the financial support of the Taiwan National Science Council.
* Corresponding author. Tel.: +1 850 644 7879.
E-mail addresses: ctseng@mail.ncku.edu.tw (C.-H. Tseng), rlee3@fsu.edu (R.P. Lee).
[1] Tel.: +886 6 275 7575x53512.

0969-5931/$ – see front matter © 2010 Elsevier Ltd. All rights reserved.
doi:10.1016/j.ibusrev.2010.03.002

identify appropriate partners; second, it is more difficult for multinationals to anticipate and stipulate contingencies in all contracts to prevent partners' opportunistic behaviors, potentially inducing higher transaction costs; finally, uncertain environments make it more difficult for the multinationals to ascertain and verify whether partner firms have shared all market information and local connections, hence again entailing higher transaction costs. Unlike JV, WOS enables multinationals to reduce communication and transaction costs incurred in partnerships, protect proprietary advantages from the risk of dissipation, and counteract external uncertainty via consolidation of decision making (Gatignon & Anderson, 1988).

In contrast, based on the process of incremental learning (Johanson & Vahlne, 1977; Johanson & Wiedersheim-Paul, 1975), an experience perspective proposes that the levels of risks encountered in and resources committed to foreign operations by a parent firm hinge on its knowledge and understanding of a particular country market (e.g., Delios & Beamish, 1999). This stream of research proposes that new international market knowledge can be learned primarily through experience in that market and a successive chain of escalating levels of resource commitments allows a multinational to increase its market understanding. Thus, a firm that is new to a country market should use JV to reduce external uncertainties through acquisition of greater local knowledge from partners and may consider using WOS after accumulating adequate experience with that specific host country.

While TCA seems to propose that WOS is more appropriate than JV under a high level of environmental uncertainty, the experience perspective maintains an opposing view. Such discrepancy in an entry mode choice is of great theoretical and practical implications (Canabal & White, 2008; Delios & Beamish, 1999; Tsang, 2000). It appears that both perspectives have overlooked an important factor, market linking capability – an important construct that reflects a firm's ability to sense and manage a new international market (Song, Nason, & Di Benedetto, 2008). Indeed, whether a parent firm is capable of managing host milieu without resorting to local aids may turn the scenario from one side to the other. Drawing on the dynamic capabilities perspective (Teece, Pisano, & Schuen, 1997; Winter, 2000) and the social network literature (e.g., Ellis, 2000; Inkpen & Tsang, 2005), we argue that by incorporating the notion of market linking capability, this research sets a more refined boundary condition to solve the dilemma between the TCA and experience perspectives in the mainstream of entry mode research (Canabal & White, 2008).

Further, previous studies on entry mode have focused largely on firms from developed countries. However, some recent research suggests that foreign expansion strategies of firms from emerging economies deserve attention separate from those of developed-country firms (Filatotchev, Strange, Piesse, & Lien, 2007). To address the rising need to explore the theoretical and practical implications of research in emerging economies (Griffith, Cavusgil, & Xu, 2008), we test our conjecture on a sample of multinationals from a rapidly growing emerging economy, Taiwan in particular.

The remainder of the study is organized as follows. First, we discuss the theoretical foundation of market linking capability and how it relates to international market entry mode decision. We then describe our conceptual framework by including the notion of market linking capability in the entry mode literature to develop a set of hypotheses, followed by the research methods. We conclude with our findings and their implications toward the end.

2. Literature review

The concept of market linking capability owes its origin to organizational strategy scholars (e.g., Day, 1994; Jaworski & Kohli, 1993) who identify market sensing and market linking competencies as keys to building an organization skilled at learning, perceiving, and reacting to the dynamics of a given market. Market sensing involves abilities to accurately interpret market information, timely detect and anticipate trends in that business area, and swiftly respond to changing market requirements (Weick, 1995); market linking is concerned with the aptitude to create and retain close bonds with customers and major channel members, suggesting the importance of networking (Sparrowe, Liden, & Kraimer, 2001) and social capital embedded in a network (Ellis, 2000; Inkpen & Tsang, 2005). Recent studies combine both market sensing and linking into an integrated construct, namely, market linking capability, and analyze its strategic and performance implications (DeSarbo, Di Benedetto, Song, & Sinha, 2005; Song et al., 2008).

Market linking capability enables a firm to compete by procuring market information, acting on changing conditions ahead of competitors, developing and maintaining intimate relationships with channel members and customers, and relating other internal strengths (e.g., innovations) to external environments (DeSarbo et al., 2005; Song et al., 2008). Its theoretical foundation lies in the heart of the dynamic capabilities (Eisenhardt & Martin, 2000; Teece et al., 1997) and social network perspectives (Inkpen & Tsang, 2005; Johanson & Mattsson, 1988). Extending from the resource based view (Barney, 1991; Wernerfelt, 1984), the dynamic capabilities perspective suggests that an organizational capability is "a high-level routine (or collection of routines) that, together with its implementing input flows, confers upon an organization's management a set of decision options for producing significant outputs of a particular type" (Winter, 2000, p. 983). On the other hand, social network theory suggests that developing and maintaining close connections and relationships with customers can aid the firm in responding to external environments (e.g., Ellis, 2000; Sparrowe et al., 2001). Thus, market linking capability is a synthesis of a firm's dynamic capabilities and its social capital embedded in a network.

Although the concept of market linking capability has been applied to a local market context (Song et al., 2008), such type of prowess is germane to managing cross-border expansion. Insofar as multinationals encounter much more complex and unknown extrinsic elements abroad (Bhardwaj, Dietz, & Beamish, 2007), capitalizing on this capability allows the firms to crack foreign markets and improve firm performance (Johanson & Mattsson, 1988). Although resource-based view of the

Download English Version:

https://daneshyari.com/en/article/1001369

Download Persian Version:

https://daneshyari.com/article/1001369

Daneshyari.com