



Contents lists available at ScienceDirect

International Business Review

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



Transactional and institutional alignment of entry modes in transition economies. A survival analysis of joint ventures and wholly owned subsidiaries in Vietnam

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ARTICLE INFO

Article history:

Received 24 September 2014

Received in revised form 11 December 2015

Accepted 15 December 2015

Available online xxx

Keywords:

Entry mode

Event history method

Institutional environment

Transition economies

Survival

Transaction costs

ABSTRACT

How do partially aligned entry modes predicted through theoretically pluralistic frameworks perform in terms of longevity? We build on transaction costs and neo-institutional economics and use event history method and Vietnamese data on 3835 joint ventures and wholly owned subsidiaries established by foreign firms from 1987 to 2008 to answer this question. We find that survival rates for entry modes that are partially aligned to transactional and institutional factors differ for JV- and WOS-based entries. We provide new evidence for the predictive power of the transactional and institutional approach for entry mode choice, performance, and survival in transition economies.

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1. Introduction

A central research issue in the entry mode literature is the performance impact of entry mode choice (Brouthers, 2013; Brouthers & Hennart, 2007; Chang, Chung, & Moon, 2012). Prior research has shown that entry modes conforming to theoretical predictions outperform entry modes that do not.³ (Brouthers, 2002; Brouthers & Brouthers, 2000; Brouthers, Brouthers, & Werner, 1999; Brouthers, Brouthers, & Werner, 2003). Research in this domain has

highlighted the importance of combining transaction-related and host-country institutional attributes to better understand the performance consequences of entry mode choice (Brouthers, 2002, 2013; Brouthers & Brouthers, 2000; Henisz, 2000). Combining transaction-related and host-country institutional determinants of entry mode choice and performance answers Williamson's (2000) call for further study of the relationship between the institutional environment (i.e., the formal rules of the game) and governance structures (i.e., the play of the game). More specifically, we consider that this specific combination of transaction-related and host-country institutional attributes lies at the core of the relationship between the rules and the play of the game, and thus will provide understanding of the entry mode choice and performance.

To answer Williamson's (2000) call, a rich stream of research has examined foreign market entry strategies in the context of transition economies⁴ (Anwar & Nguyen, 2011; Dikova & Van

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² I take this publication opportunity to pay tribute to the memory of my colleague and friend, Ulrich Wassmer. Ulrich passed away in December 2014. He was a unique person, not to mention all qualities described by his colleagues all over the academic world. It was a pleasure and honor to work with him over these last years. A great co-author, a great friend. I will especially keep in my memory the time spent together in Aix-en-Provence and Montreal revising our co-authored papers, including this article.

³ The literature also refers to the alignment between actual entry modes chosen by firms and the entry modes theoretically predicted as "mode fit" (Brouthers, 2002).

⁴ Transition economies are countries in which the economy is switching from a communist central planning system to a market economy system (Filatotchev, Wright, Uhlenbruck, Tihanyi, & Hoskisson, 2003; Paul & Wooster, 2008). Such a switch tends to occur within a relatively short timeframe (i.e., a few years), and causes rapid and fundamental changes in the country's institutional environment (Dikova & Van Witteloostuijn, 2007; Meyer, 2001; Meyer & Tran, 2006).

Witteeloostruijn, 2007; Iankova & Katz, 2003; Makino & Tsang, 2011; Meyer & Nguyen, 2005; Meyer, 2001; Puck, Holtbrügge, & Mohr, 2008; Tan & Meyer, 2011; Tsang, 2005). Because of underdeveloped market mechanisms and insufficient legal and regulatory conditions (Filatotchev et al., 2003) transition economies provide an ideal research setting for investigating the outcomes of transactional governance structures in environments with high institutional uncertainty (Williamson, 2000, 2005).

Although the above literatures have laid a solid foundation, a number of meaningful gaps still exist that merit further research. First, while prior research has found that entry modes with strong transactional and institutional alignment outperform misaligned entry modes, it is still not clear how different alignment levels affect entry mode performance. Examining such different combinations of transactional and institutional alignment, i.e., fully aligned, partially aligned and misaligned entry modes, sheds new light on the entry mode choice–performance relationship. Second, the bulk of the foreign market entry research in the context of transition economy settings has focused on countries in which economic and political reforms have been jointly instituted, e.g., Central and Eastern Europe (e.g., Dikova & Van Witteeloostruijn, 2007; Meyer, 2001; Steensma & Lyles, 2000; Uhlenbruck & De Castro, 2000). However, the analysis of entry mode choice and survival in a transition economy context in which economic reform was implemented but political reform rejected (e.g., such as in China and Vietnam) can create new insights because such an environment bears additional uncertainty and complexity that can affect outcomes (Anwar & Nguyen, 2011). When compared to attributes of other transition economy types, the continuing presence of a Marxist political ideology in such countries influences the values and behavior of local managers (Steensma & Lyles, 2000), creates socialist imprinting on local partner firms, and thus results in different institution–foreign firm and foreign firm–local partner relationships.

To address these gaps in the extant literature, our study examines the relationship between entry mode choice and survival in the institutional context of Vietnam. To do so, we pursue an extended transaction costs (TC) approach that integrates transaction- and institutional environment-related attributes (Henisz, 2000; Williamson, 2000, 2005). Our study seeks to answer the two following research questions: *do entry mode choices into transition economies that conform to the predictions by TC and institutional factors outsurvive entry mode choices that do not conform to those predictions? Do entry modes with different combinations of transactional and institutional alignment have similar or dissimilar survival rates?*

To address these two questions, we focus on two common entry modes that differ in equity control: joint ventures (JVs) and wholly owned subsidiaries (WOSs). Moreover, we examine two key transaction-relevant attributes (i.e., asset specificity and external uncertainty) in addition to host country “formal rules (constitutions, laws and property rights)” (North, 1991, p. 97). By building on the argument that national and local institutions influence foreign direct investment (FDI) patterns (Meyer & Nguyen, 2005; Nguyen, Le, & Bryant, 2013) we examine the impact of the transactional, national and sub-national institutional factors on the relationship between entry mode choice and survival.

Our study contributes to the literature on the performance consequences of entry mode choice by examining the impact of transactional and institutional factors on the relationship between entry mode choice and performance (Brouthers, 2002; Brouthers et al., 2003) and differentiating our analysis according to both different combinations of transactional and institutional alignment and the type of entry mode (JV or WOS) that was selected by

the foreign firm. Such a differentiation allows us to examine whether the performance associated with different combinations of transactional and institutional alignment is distinct for partially aligned JVs and WOSs. In addition, our study makes three empirical contributions. First, we examine the entry mode choice–survival link in the specific institutional context of Vietnam, a transition economy that has implemented economic change but has rejected political change. Second, we build on Anwar and Nguyen (2011), Meyer and Nguyen (2005) and Nguyen et al. (2013) who suggest that Vietnam is an ideal setting for examining the implications of institutional variation within a country below the national level on FDI. We do so by providing a fine-grained analysis on the level of Vietnam’s national and sub-national (i.e., provincial) institutional environment to examine the link between local institutions and FDI patterns. Third, we seek to address the transaction attribute measurement issue highlighted by prior work (Zhao, Luo, & Suh, 2004). Here, we seek to overcome the shortcomings of existing asset-specificity measures, such as R&D budgets, advertising budgets, or market-to-book values of foreign investors (Zhao et al., 2004). To do so, we measure asset specificity using the local subsidiary’s R&D intensity in order to derive a measure that is more directly related to the nature and value of assets transferred locally by the foreign firm.

The remainder of this paper is organized as follows. In the next section, we build on the literature relevant to this study to develop our theory and hypotheses. We then use event history method and data on 3835 JVs and WOSs set up in Vietnam by foreign firms during the period 1987–2008 to test our hypotheses. We conclude with a discussion of our findings, limitations, and suggestions of possible avenues for future research.

2. Background literature and hypotheses

This section contains three interrelated analyses. First, we use the extended TC approach, i.e., a combination of TC and institutional factors, to examine entry mode survival in transition economies. We then move on to analyze the link between transactional and institutional alignment and survival of entry modes. Lastly, we extend this link by introducing different combinations of transactional and institutional alignment for JVs and WOSs. Fig. 1 depicts the structure of our analysis.

2.1. The extended TC approach applied to entry mode choice in transition economies

International business scholars have used TC theory to analyze entry mode choice in a broad range of geographical settings. Recent meta-analytic research on modes of entry into emerging economies reveals two interesting insights (Zhao et al., 2004): (i) the predictive power of external uncertainty in determining an ownership-based entry mode (JV vs. WOS) choice is limited and (ii) external uncertainty and asset specificity should be used jointly to examine entry mode choice.

External uncertainty is the consequence of environmental unpredictability and volatility, which together make it difficult for foreign firms to anticipate future changes in host country environments (Agarwal, 1994; Anderson & Gatignon, 1986). As a consequence, external uncertainty directly affects a foreign firm’s transaction costs. When it comes to adapting to external uncertainty, WOS- and JV-based entries offer different advantages and disadvantages. The WOS’s advantage lies in the speed of decision making: as the foreign firm is in full control of local operations, it can rapidly adjust to sudden, unforeseen environmental changes. On the other hand, WOSs often suffer from a liability of foreignness (Chiao, Lo, & Yu, 2010; Zaheer, 1995). For JVs, the shared management of operations and the frequent

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