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Market entry modes in a multipolar world: Untangling the moderating effect of the political environment

Maria A. De Villa^{a,*}, Tazeeb Rajwani^b, Thomas Lawton^c

^a Department of Organizations and Management, School of Management, Universidad EAFIT, Cra 49 No 7 sur 50, Medellin, Colombia

^b Strategic Management Group, School of Management, Cranfield University, College Road, Cranfield, Bedford MK43 0AL, United Kingdom

^c The Open University Business School, Walton Hall, Milton Keynes, MK7 6AA, United Kingdom

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ABSTRACT

We review the extant literature on market entry modes to explain the multi-levels of the political environment that can have a moderating effect on transnational corporations' (TNC) market entry processes. Based on a systematic review of the Uppsala model, transaction cost analysis, real options, eclectic paradigm, industrial network, and institutional approaches, we show that the market entry modes literature has largely excluded some aspects of the political environment from market entry mode decisions. Consequently, we continue to struggle with the question of how TNCs can factor the political environment into their foreign market entry processes. We suggest a more detailed analysis of the political environment may enable future research to address this challenge using corporate political activity literature and institutional theory. In particular, a distinction between macro and micro levels of analysis can explain how the moderating effect of the political environment on market entry mode decisions can be untangled.

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1. Introduction

Foreign market entry modes are institutional arrangements for organizing and conducting international business transactions in host markets. Examples include exporting, contractual agreements, joint ventures, and wholly owned operations (Andersen, 1997; Root, 1987). The decision as to what market entry mode is more appropriate for a transnational corporation (TNC) in a given international market has traditionally been based on various antecedents and moderators which frequently exclude the analysis of the political environment or limit its study to political ratings or degree of political stability (Delios & Henisz, 2003; Henisz & Zelner, 2010; Holburn & Zelner, 2010; Kobrin, Bask, Blank, & Palombara, 1980; Ring, Lenway, & Govekar, 1990). Paradoxically, although the political environment has been identified as an important moderator in internationalization activities (Bucheli & Aguilera, 2010), the evolution of market entry modes research has not adequately addressed this multi-level construct, which sets forth

the question of how TNCs can factor the political environment into their market entry processes.

To tackle this gap, we argue for the need to give more relevance to the political environment in market entry modes research and decision-making. This is particularly pertinent in a multipolar global economy. Multi-polarity implies the distribution of power and influence within the international system. It signifies a changing world order from the post-Cold War unipolar world dominated by U.S.A. economic, political, financial, cultural, and military might. Our intent in using this term is to convey the increased diffusion of power, particularly economic, financial, and political, to countries other than the U.S.A. This approach recognizes the growing influence and hegemony of China, India, Brazil, Russia, and other countries, both within their geographical regions and beyond. It also recognizes that in the search for growth and market opportunities, TNCs from developed economies commonly decide to enter emerging economies where political environments are frequently more unpredictable and less stable and where the limited analysis of political ratings and stability is not enough to assess the impact of the political environment on market entry processes (Delios & Henisz, 2003; Holburn & Zelner, 2010). For TNCs, this ongoing global geopolitical realignment necessitates an even more multifarious approach to market entry mode decisions that includes a structured analysis of the moderating effect of the political environment.

* Corresponding author. Tel.: +574 2619500x39778.

E-mail addresses: mdevilla@eafit.edu.co (M.A. De Villa),
tazeeb.rajwani@cranfield.ac.uk (T. Rajwani),
thomas.lawton@open.ac.uk (T. Lawton).

To redirect market entry modes research towards an alignment with a multipolar world, the key contributions of this paper are to first, classify the various approaches in the field of foreign market entry modes research to emphasize the dominant theoretical constructs that these approaches factor into market entry processes. Second, to suggest that an institutional framing of the political environment requires even more attention in market entry modes literature due to its indirect and direct effects (Peng, Wang, & Jiang, 2008; Slangen & van Tulder, 2009), especially from formal and informal institutional conditions that shape different TNCs' behaviors (Gao, Murray, Kotabe, & Lu, 2010). Third, to explain how and why TNCs can more effectively factor the political environment into market entry mode decisions by distinguishing between macro (supranational, international, and national) and micro (industry and firm) levels of analysis. Finally, we aim to provide future research avenues for scholars in the market entry field using corporate political activity ideas and institutional theory in their models and methodologies to better explain the positive and negative outcomes from internationalization.

Acknowledging our contributions, we find Fayerweather (1969) was one of the first international business scholars to address the accommodation of interests and the resolution of conflict between firms and political actors as one of the key decision factors influencing internationalization strategies. Building on this work, Boddewyn (1988) and Hillman and Hitt (1999) extended Fayerweather's argument by claiming that the political environment, which captures governments (and government policies), is a critical source for TNCs because of governments' ability to exert control over critical resources and policies that shape a TNC's competitive advantage. Even the perceived ability of a nation's government to credibly commit to a given set of policies has been found to influence the market entry modes selected by TNCs (Henisz & Swaminathan, 2008). Therefore, scholars such as Peng, Wang, and Jiang (2008) highlight the importance of an institution-based view in international business and raise the importance of politics, law, and society in home and host countries. Moreover, they suggest that TNCs' internationalization is not only driven by industry competition and firm capabilities, but is also a reflection of the formal (political and legal systems) and informal (social structures and relationships) institutional factors that they encounter in their home and host markets (Peng et al., 2008). However, the multi-level political aspects (supranational, international, national, industry, and firm level political aspects) of these environments have not permeated extensively into market entry modes research, especially cross fertilizing corporate political activity (CPA) and political distance ideas between home and host countries into international business literature (Lawton, McGuire, & Rajwani, 2013).

Thus, we commence by reviewing the diverse market entry modes literature streams and develop a comprehensive classification that describes and integrates existing research on the antecedents and moderators of market entry mode decisions. It is important to clarify that *antecedents* refer to the endogenous or organizational (*internal*) conditions and constraints and *moderators* refer to the exogenous or environmental (*external*) conditions and challenges, which both influence TNCs' foreign market entry modes decision-making. Building on the reviews of Andersen (1997), Brouthers and Hennart (2007), and Canabal and White (2008), we critically analyze the six dominant research perspectives on foreign market entry modes: (1) the Uppsala model; (2) transaction cost; (3) real options; (4) the eclectic paradigm; (5) industrial networks; and (6) the institutional approach.

We find that market entry modes research has proposed a variety of antecedents, and more recent work specifies complex relationships and potential moderating effects (Brouthers, Brouthers, & Werner, 2008; Cui & Lui, 2005; Luo, 2001; Meyer,

Estrin, Bhaumik, & Peng, 2009; Rasheed, 2005). Nonetheless, the multi-levels of the political environment have not been accurately assessed in market entry modes literature. Hill, Hwang, and Kim (1990) call for a unifying theory to explain the different factors and relationships influencing market entry mode selection decisions. However, no single theory has reached this consensual position. Consequently, with contributions coming from an increasing variety of research domains, the debate on market entry modes has become disconnected and complex. Therefore, we contribute to the market entry modes literature by integrating and synthesizing the conceptual and empirical insights from prior research and highlighting the importance of the inclusion of the multi-levels of analysis of the political environment using ideas from corporate political activity literature and institutional theory. More importantly, as an influential moderator, we suggest future research avenues that capture the macro and micro levels of the political environment to better predict the market entry choice and performance of TNCs in host markets.

2. Methodology

The method chosen for this systematic review followed guidelines proposed by Tranfield, Denyer, and Smart (2003). This systematic review method allows us to reduce bias, enhance objectivity, and identify gaps in the literature. Thus, following a systematic process to review market entry modes literature, we aimed to provide critical insights through theoretical synthesis to untangle how TNCs factor the political environment into their market entry processes. We determined the selection of articles relevant to our review using ProQuest and EBSCO databases. In our analysis, we concentrated on review articles published during the last two decades and on theoretical and empirical articles published during the last three decades in management and international business journals. We placed special emphasis on the references cited in the 'market entry modes' review articles that were found and on those articles published in journals such as Journal of International Business Studies (*JIBS*), Strategic Management Journal (*SMJ*), International Business Review (*IBR*), Journal of World Business (*JWB*), Management International Review (*MIR*), Journal of Management Studies (*JMS*), and Journal of Management (*JOM*), among others.

2.1. Search strategy

In the first step, our search strategy focused on identifying seminal market entry modes review articles published during the last two decades. We found Andersen (1997), Brouthers and Hennart (2007), and Canabal and White (2008) to be important papers to build on. In a second step, drawing on these review articles, we extended our search by analyzing their cited references. In a third step, we expanded our search by identifying all articles published during the last three decades using the words *international**, *market entry modes*, and *global* strategy* in their title and/or abstract, since these terms tend to be used by articles that discuss market entry modes. The (*) asterisks at the end of some of the search words worked as a query optimization strategy that enabled the capturing of those words with different possible endings. For example, in the case of *international**, the search results could include internationalization, internationalizing, internationals, and other terms with different endings. This search yielded a set of 9829 articles.

2.2. Selection of articles

In this final step, we had to select the key articles to frame our review within the total sample. Therefore, we initially reviewed

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