Chapter 9

Foreign Business Environments and Entry Mode Choice: Organize Activities Internal within or External to the Firm?

Maud Oortwijn
Warwick Business School, UK

ABSTRACT

The entry mode choice is at the core of International Business studies (Oortwijn, 2011a). IB research concerns the organization of firm activities across country borders and thus across different cultures and business contexts. These host country differences impact the firm’s way of working internally within the organization and in interaction with the external environment in the host country. Companies can consider a broad range of entry modes to organize across country borders, including partnership, trade, joint venture (JV), and wholly owned enterprise (WOE). The entry mode defines what activities are internalized within the firm and how the firm interacts with the external environment in different host countries.

INTRODUCTION

The abstract explains the different entry mode options, with their varying levels of financial investments, strategic flexibility, and exposure to host country differences. The second paragraph discusses how the uncertainty about the unknown host country conditions and cultural differences impact the preferences for the entry mode choice in various ways: the so-called “cultural distance paradox”. Firms can manage country differences through the entry mode choice and the level of
involved partners. Additionally, over time they gain experience in managing activities across country borders. The existing international business experience of the firm is often mentioned to support firms in organizing new international business activities (see paragraph 3). Others claim how local partners can help the firm interpret and manage the differences between the home and host country business environment.

The present chapter provides insight in how both influencing factors play a role in managing differences between host countries, which is reflected in the entry mode choice. The multiple case study research approach containing 38 international business entrance decisions is described in paragraph 4. The main findings are presented in paragraph 5.

1. ENTRY MODE OPTIONS

Firms interested in serving foreign markets face a difficult decision with respect to the entry mode choice. The different entry modes are characterized by varying degrees of resource commitment, managerial control, risk exposure, profit return and involvement of local parties (Anderson & Gatignon, 1986; Pan & Tse, 2000). The impact of the complexity of working in multiple, often unknown business context(s), is the core of what concerns International Business (IB) scholars. The entry mode is an institutional arrangement for organizing and conducting international business transactions (Andersen, 1997). Companies can consider a broad range of entry modes, including Partnership, Trade, Joint Venture (JV) and Wholly-Owned Enterprise (WOE). These organisational modes manage international business activities differently, which impacts performance, control and interaction with cultural distant business environments. In this paragraph, more detailed descriptions of the mode options are provided.

1.1 Entry Mode Choice as a Central Theme

The core of IB studies is to understand the impact of developing and organizing business activities across cultural differences and country borders (Tung, 2008). The differences between markets and the complexity of managing business activities in and across different markets is the arena of IB studies (Johanson & Vahlne, 1977; Hennart & Arbor, 1982; Dunning, 2002; Hohenthal, et al., 2003). It is not surprising the entry mode choice is an extensively studied subject in IB research (Werner, 2002; Griffith, 2008).

Institutional difference and cultural difference are arguably one of the most fundamental constructs in International Business (Dow, 2009). Inter-country differences are more difficult for Multinational Enterprises (MNEs) to access, harmonise or coordinate than the international transfer or dissemination of physical assets as such (Dunning, 2009). Entering a foreign, unknown country creates additional disadvantages and additional costs compared to operating in the home market, both in the strategic decision-making process of entry as well as in the start-up and operating phase (Sethi & Guizinger, 2002). Cultural differences are difficult to manage, both internally within the firm and externally in interaction with external parties in an unknown foreign business environment. As the entry mode defines what activities are internalized within the firm and how the firm interacts with the external environment in different host countries, entry mode choice is at the core of IB research.

1.2 Entry Mode Options

A mode of entry is an institutional arrangement chosen by the firm to operate in the foreign market (Kumar & Subramaniam, 1997). To enter a foreign market, a firm must decide on the nature of its operations in the host country. Entry modes are chosen based on internal capabilities, strategic