

**Meyer et al. (2009). “Institutions, Resources, & Entry Strategies in Emerging Economies”,
Strategic Management Journal.**

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■ Research Questions

- ❖ **Q1: HOW** do foreign firms adapt entry strategies under significant differences in institutional development?
- ❖ **Q2: WHAT EXTENT** do investors' needs for local resources influence entry strategies in institutional contexts?
- ❖ **Q3: WHAT** are **MANAGERIAL SUGGESTIONS**?

■ Theory

- ❖ A mix of **institutional & RBV considerations**.

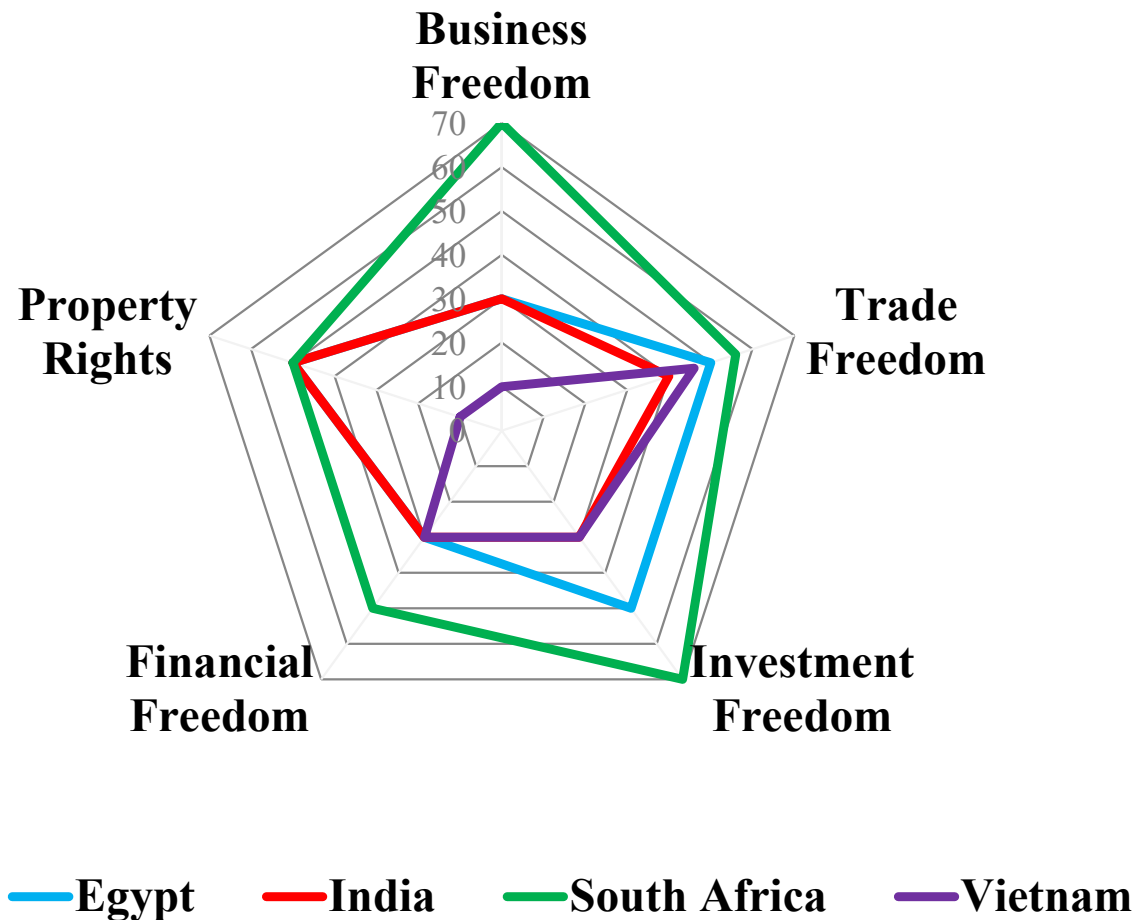
■ Analytical Strategy

- ❖ A **quantitative** approach (*i.e.*, Questionnaire survey & archival data from **Egypt, India, South Africa, & Vietnam**).
- ❖ **420** MNE subsidiaries (between 2001 & 2002).
- ❖ A multinomial logit (**M-Logit**) regression model.

Institutions, Resources, & Entry Strategies



■ '4' Emerging Economies



KEY POINTS

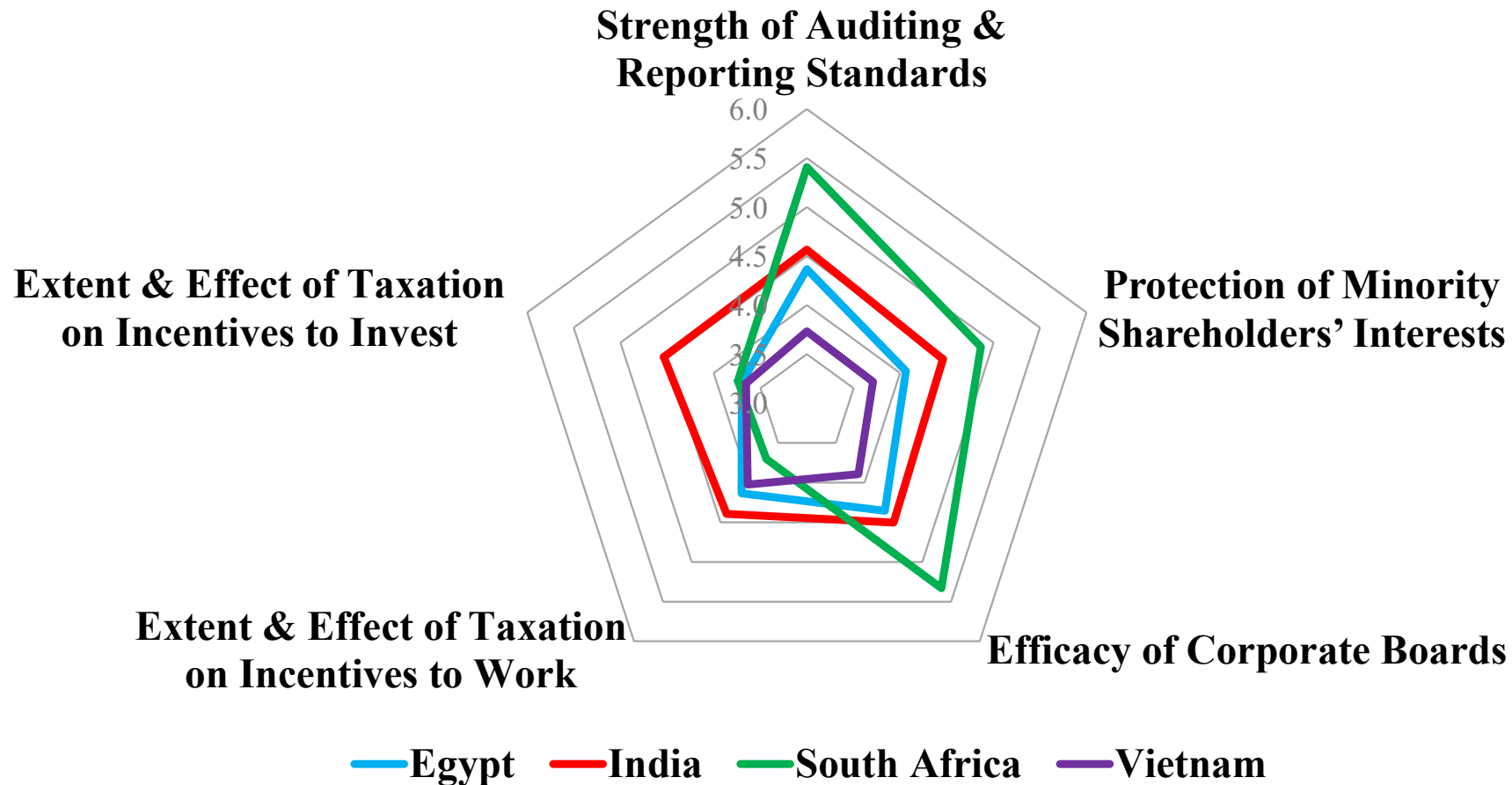
- > Each country has pursued significant **economic reforms** since the 1990s.
- > As a result of reforms, each country experienced a **surge of inward FDI** during the 1990s.
- > **Variations in the local institutional environments** include a fairly developed financial infrastructure.
- > **The institutional environment** has been evolving differently in the '4' countries.

Original Sources: World Development Indicators & **Heritage Foundations**; Source: Meyer et al. (2009: 67)

Institutions, Resources, & Entry Strategies



■ '4' Emerging Economies



Source: Own illustration based on World Bank's database on Business Enabling Environment (BEE). **Notes:** Scale (1-7). The data presented is 2017.



■ Economic & Institutional Indicators

<https://www.worldbank.org/en/programs/business-enabling-environment/complementary-resources>

Doing Business Legacy
On September 16, 2021, World Bank Group management took the decision to discontinue the Doing Business report. The Doing Business and Subnational Doing Business websites will continue to be publicly available as an ...

Alternative Existing Indicators
The World Bank Group is working on a new approach to assessing the business and investment climate. This section presents a compendium of existing indicators of business environment which may be of interest to many users....

Complementary Resources
The new business enabling environment project will not measure the full range of factors that affect an economy's business environment. These are complementary resources relevant to the business environment that will not ...



■ Entry Mode Choice

❖ Institutions & Entry Strategies

- > **Institutions** have an essential role in a market economy to support **the effective functioning of the market mechanism**.
- > **Institutions**: (1) the **legal framework** & its **enforcement & enactment** of & laws, (2) private **property rights**, & (3) **regulatory regimes**.
- > **Institutions** provide information about business partners, which reduces **information asymmetries** as a core source of market failure (Arrow, 1971).
- > **JVs** provide a means to access resources held by local firms, including resources, such as **networks** that may help to counteract idiosyncrasies of a weak institutional context (Delios & Beamish, 1999).
- > **Weak institutions** lead to **a lack of transparent financial data & a shortage of specialized financial intermediaries** (Khanna et al., 2005).

❖ **HYPOTHESIS 1: *The stronger the market-supporting institutions in an emerging economy, the less likely MNCs are to enter by JVs.***



■ Entry Mode Choice

❖ Resources & Entry Strategies

- > Entry by **acquisitions** or **JVs** takes the form of **pooling resources** between a foreign entrant & a local firm.
- > **Greenfield FDI** does **NOT** directly enable access resources held by locals.
- > Key **context-specific resources** include **networks** with different actors (*i.e.*, other firms, agents in the distribution networks, & government agencies).
- > Key **context-specific capabilities** that can be **shared across emerging economies** may relate to:
 - (1) Using strategic & organizational flexibility;
 - (2) Managing local labor forces;
 - (3) Managing interfaces with government authorities; &
 - (4) Developing capabilities that enable firms to build & maintain networks.

❖ **HYPOTHESIS 2a:** *The stronger the need to rely on local resources to enhance competitiveness, the less likely MNCs are enter an emerging economies by greenfield.*



■ Entry Mode Choice

❖ Resources (Intangible Assets) & Entry Strategies

- > The likelihood of facing malfunctioning markets varies with the characteristics of the resources sought (*tangible vs intangible*).
- > **Certain types of resources** are less suitable to **market exchange**:
 - (1) ‘*Information asymmetries*’: ... is **a source of market failure**. The market for information is prone to failure because buyers cannot assess the quality of the information prior to the exchange (Buckley & Casson, 1998).
 - (2) ‘*Asset specificity*’: **Market exchange** leads to **interdependencies**, developing the risk of potential **opportunistic behavior**. Asset specificity arises from partner-specific learning processes (Brouthers & Hennart, 2007).
 - (3) ‘*Tacitness of knowledge*’: Learning by interpersonal interaction between instructor & receiver is difficult to organize via markets (Teece, 1977).

❖ **HYPOTHESIS 2b: *The effect of Hypothesis 2a is stronger when requiring intangible assets compared to tangible assets.***



■ Entry Mode Choice

❖ Institutions + Resources (Intangible Assets)

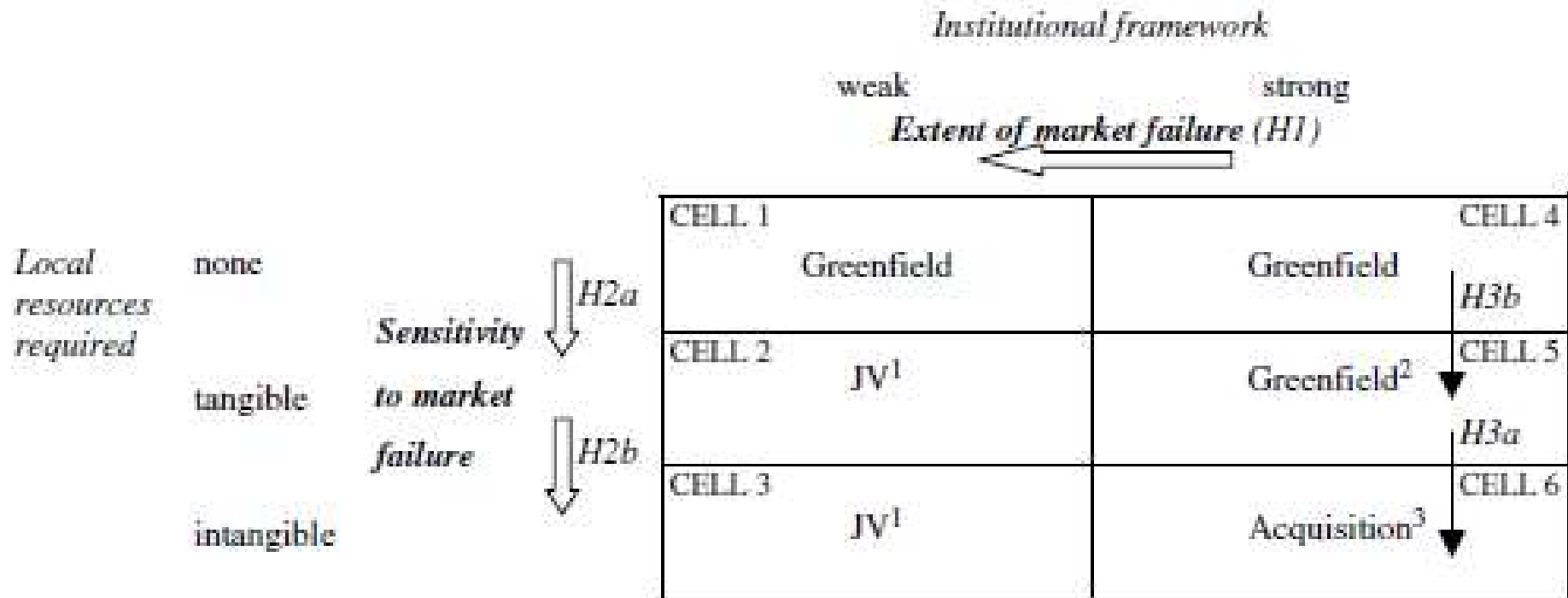
- > **If institutions are very weak** & thus fail to ensure even modes efficiency of markets, **foreign entrants would not be able to rely on markets** to access local resources.
 - **Acquisition** may be prohibitively **costly** because of **the inefficiency of financial markets**.
 - In this situation, it is likely that **the resources of the acquired firm could not be properly valued, & their integration would be too challenging**.
- > Where **strong institutions** make markets highly efficient, foreign entrants would probably be able to **use contracts to arrange most transactions**.
- > Under **strong institutions**, **acquisitions** would be more likely to be used when foreign entrants seek **intangible resources** held by local firms.

❖ **HYPOTHESIS 3:** *Under conditions of weak institutions, the greater the need of foreign entrants for intangible resources, the more likely they are to use JVs rather than greenfield or acquisitions.*



■ Entry Mode Choice

❖ Resources, Institutions & Market Failure



Source: Meyer et al. (2009: 66)

Schwens et al. (2011). “The Moderating Impact of Informal Institutional Distance & Formal Institutional Risk on SME Entry Mode Choice”, *Journal of Management Studies*.

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■ Questions

- What are the **major contributions** of this study in theoretical, methodological & empirical terms?
- Evaluate the **major difference** between this scholarly investigation and Meyer et al. (2009).
- Discuss **whether, how and when** entry mode choice is significantly influenced by (1) **prior international experience**, (2) **proprietary know-how**, and (3) **strategic importance**.
- What is **common method variance (CMV)**? How did the authors overcome this critical issue?
- What is the **valuable message** of this particular study?



■ Research Questions

- ❖ The authors try to investigate the **moderating effect of informal institutional distance & formal institutional risk** on the relationships between **basic decision-making criteria & equity-based market entry modes**.
- ❖ Decision-making criteria: (1) **international experience**, (2) **proprietary know-how**, & (3) **strategic importance**.

■ Theory

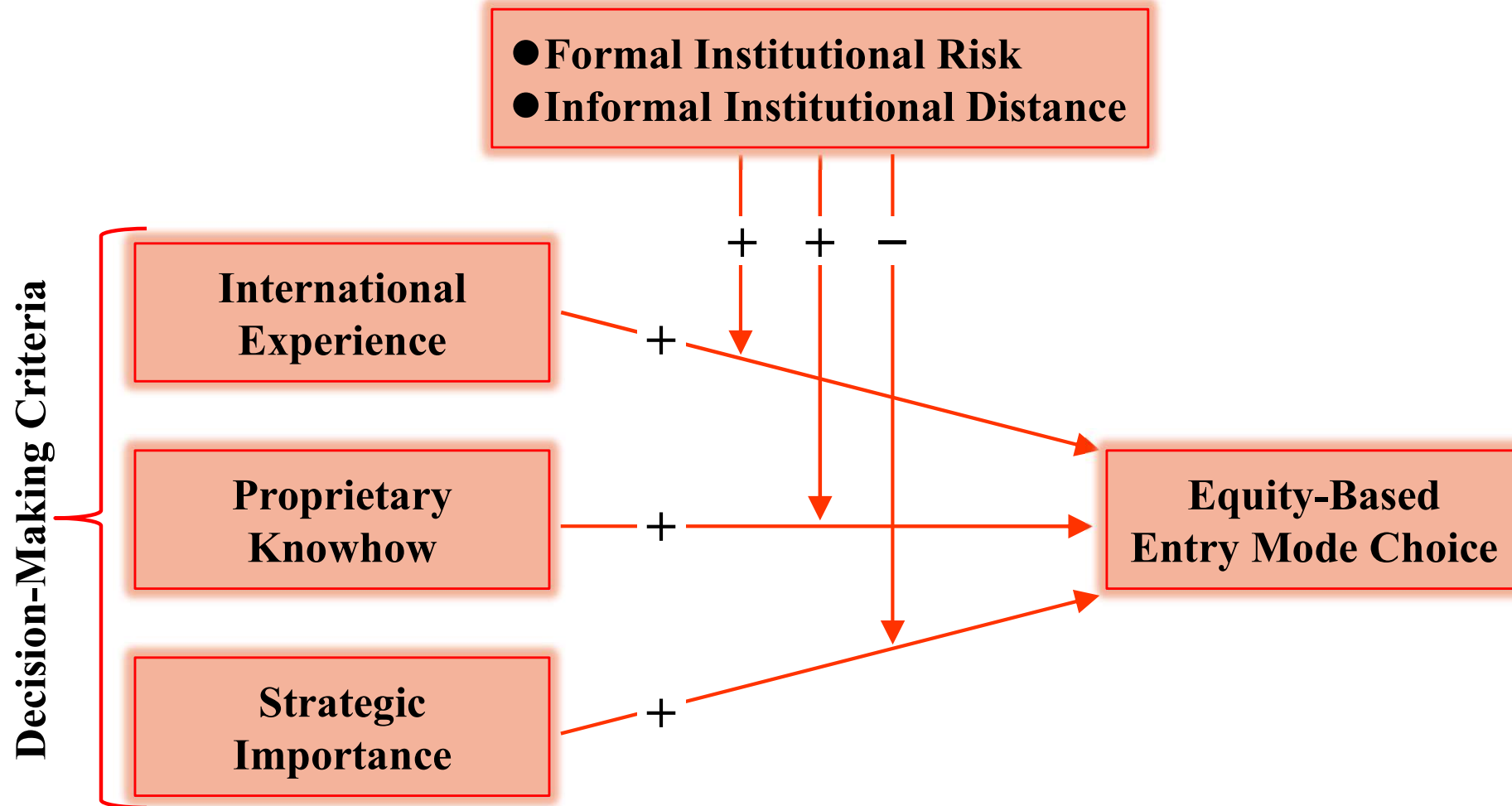
- ❖ **Institutional considerations**.

■ Analytical Strategy

- ❖ A **quantitative** approach (*i.e.*, questionnaire & archival data).
- ❖ **227 German SMEs**.
- ❖ Binary **logistic** regression analysis.



■ Proposed Conceptual Framework





■ Question

❖ What is common method variance (CMV)?



CMV occurs when the estimated relationship between the **dependent & independent variables** might be **inflated**, implying that CMV causes a **systematic covariation above the true relationship**.



■ What Causes the Critical Issue of CMV?

Journal of Applied Psychology
2003, Vol. 88, No. 5, 879–903

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0021-9010/03/\$12.00 DOI: 10.1037/0021-9010.88.5.879

Common Method Biases in Behavioral Research: A Critical Review of the Literature and Recommended Remedies

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Indiana University

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University of Florida

Interest in the problem of method biases has a long history in the behavioral sciences. Despite this, a comprehensive summary of the potential sources of method biases and how to control for them does not exist. Therefore, the purpose of this article is to examine the extent to which method biases influence behavioral research results, identify potential sources of method biases, discuss the cognitive processes through which method biases influence responses to measures, evaluate the many different procedural and statistical techniques that can be used to control method biases, and provide recommendations for how to select appropriate procedural and statistical remedies for different types of research settings.

Source: Podsakoff, MacKenzie & Podsakoff (2003).



■ What Triggers the Critical Issue of CMV?

1. Implicit Theories & Illusory Correlations

- Respondents' beliefs about the association among particular traits, behaviors, & outcomes.

2. Social Desirability

- The tendency of some people to respond to items more as a result of their social acceptability (> their true feelings).

3. Single Rater Effect

- The predictor & criterion variables are obtained from the same source or rater.

4. Mood State

- The propensity of respondents to view themselves positively or negatively.

Source: Podsakoff, MacKenzie & Podsakoff (2003: 882).



■ How Did the Authors Alleviate the Issue of CMV?

1. The **dependent variable** (entry mode choice) is an **objective measure** rather than a perceptual evaluation.
2. The **moderator variables** (informal institutional distance & formal institutional risk) are based on **secondary sources**.
3. The **interaction terms** were integrated into the research framework → The respondents are **not able to comprehend** the **logic of a complex relationship** in the model.
4. A ‘**one factor**’ test was conducted to control for CMV.

■ Any Other Remedies?

1. All questionnaire items were presented in a **random order**.
2. The protection of **anonymity & confidentiality**.
3. The **clarity of wordings** of all questionnaire items.



Empirical Results

Binary logistic regression analysis (dependent variable: entry mode choice)	Model 1 control variables	Model 2 + direct variables + moderator variables	Model 3 + informal interaction variables	Model 4 + formal interaction variables	Model 5 + formal and informal interaction variables
Direct variables					
International experience		0.661***	0.709***	0.699***	0.803***
Proprietary know-how		0.214	0.232	0.323†	0.443*
Strategic importance		0.785***	0.751***	0.711**	0.594*
Moderator variables					
Informal institutional distance		-0.319	-0.434	-0.391	-0.578
Formal institutional risk		-0.115	-0.122	-0.037	0.032
Interaction variables					
International experience × informal institutional distance			-0.159		0.074
Proprietary know-how × informal institutional distance			0.400†		0.635*
Strategic importance × informal institutional distance			-0.627		-1.125*
International experience × formal institutional risk				0.211†	0.363†
Proprietary know-how × formal institutional risk				0.409*	0.614*
Strategic importance × formal institutional risk				-0.318†	-0.600*
Control variables					
Firm size	0.001	0.002	0.001	0.002	0.002
Family business	-0.360	-0.454	-0.430	-0.433	-0.443
Resource endowment	-0.123	0.045	0.019	0.059	0.023
Motive learning in the foreign market	0.564**	0.328*	0.361*	0.392*	0.484**
Motive access to market	-0.143	-0.298	-0.267	-0.360	-0.304
Industry dummy	0.267	0.059	0.058	0.137	0.160
Constant	-1.398	-0.008	-0.144	-0.016	-0.295
R ² (Nagelkerke)	0.104	0.281	0.295	0.310	0.344
R ² (Cox & Snell)	0.078	0.210	0.221	0.232	0.257
Chi-square	18.41	53.50	56.55	59.84	67.30
Correct classifications	63.9	70.5	70.9	71.2	71.4
Significance	0.005	0.000	0.000	0.000	0.000
N	227	227	227	227	227

Notes: N = sample size; R² = variance.

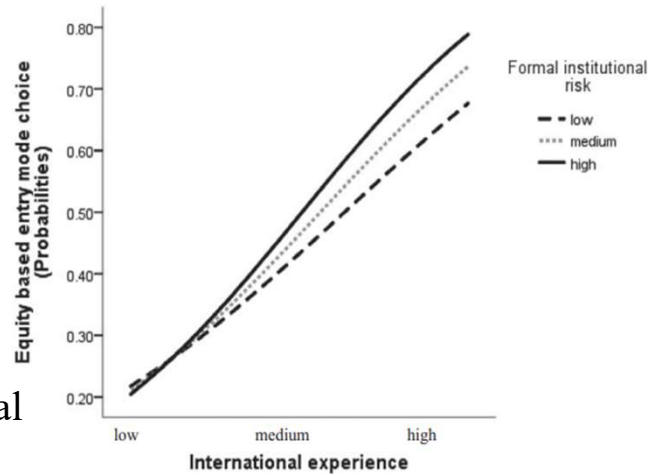
Significance levels: *** p ≤ 0.001; ** p ≤ 0.01; * p ≤ 0.05; † p ≤ 0.1.



The Plots for the Probabilities of Entry Mode Choice

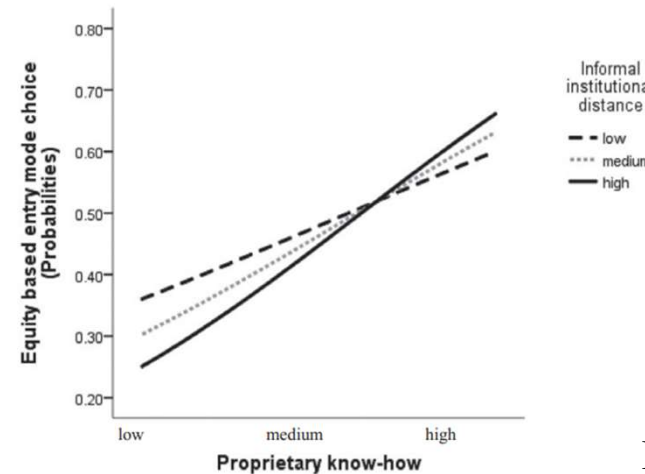
1

International Experience × Formal Institutional Risk

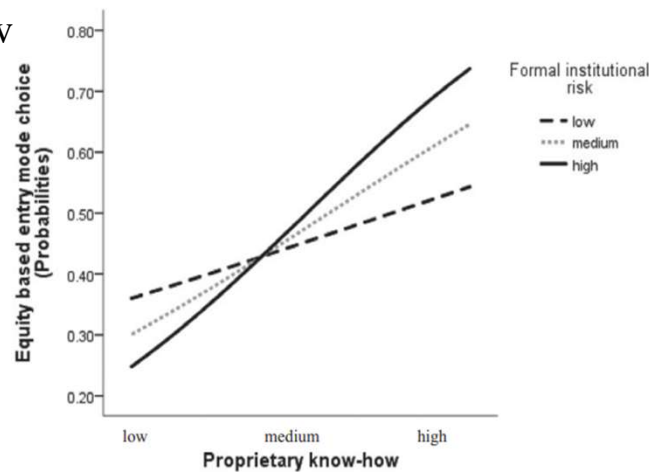


2

Propriety Knowhow × Informal Institutional Distance

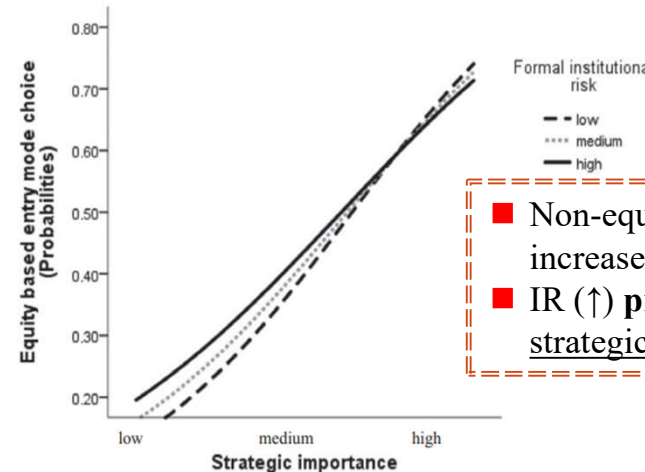


Propriety Knowhow × Formal Institutional Risk



3

Strategic Importance × Formal Institutional Risk



4

- Non-equity-based entries help increase **flexibility** for SMEs.
- IR (↑) **prevents long-term strategic planning.**



Internalizing Specific Transactions

ASSET SPECIFICITY

- > **FDI** *versus* exports.
- > **FDI** *versus* outsourcing.

DISSEMINATION RISK

- > **FDI** *versus* licensing of technology (*e.g.*, automotive companies).

STRATEGIC CONTROL

- > **FDI** *versus* licensing as market entry strategy
 - Starbucks in South Korea: Licencing to ESCO => **FDI** to promote the aggressive growth of the chain.

INFORMATION ASYMMETRY

- > **FDI** *versus* exports where assessing the quality of the good is difficult.
- > **FDI** *versus* outsourcing where monitoring of the actual process is crucial.

TACIT KNOWLEDGE TRANSFERS

- > **FDI** *versus* licensing/franchising of complex knowledge (*e.g.*, OEM companies).

Internalization advantages



■ Limitations?

1. **Countries may vary internally** to a large extent, which potentially limits the application of GLOBE indices.
2. **Cross-sectional research** → A longitudinal design is required to examine the evolution of foreign entry modes = **Causality** (↑)

■ Managerial Relevance?

1. By considering the **differences between the firm's home & host country** carefully, managers need to decide whether to choose an equity based or non-equity based entry mode.
2. **Prior international experience** leads SMEs to **minimize institutional pressures** in the host country **more effectively**.
3. **An equity-based entry mode** helps SMEs **protect their specific knowhow** in the host country's **risky institutional context**.

The LG-Nortel Joint Venture Case

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The LG-Nortel Joint Venture Case



■ Questions

- ❖ Did Nortel make the right decision by entering South Korea through a JV? **What other market entry alternatives** did Nortel have?
- ❖ **What** are the advantages & disadvantages of having a strategic alliance such as the LG-Nortel JV?
- ❖ **What** are the skills & attributes that successfully JV managers would ideally possess? **What about MacKinnon?**
- ❖ **What** can MacKinnon do to reduce cross-cultural conflicts within the JV?
- ❖ **What** can Nortel & LG do to improve the probabilities of the success of this JV?



■ WEEK 4-2 (21.03.2023 | Thursday): Location Choice

- ❖ **Head, K., & Mayer, T. (2004).** “Market potential & the Location of Japanese Investment in the European Union”, *Review of Economics & Statistics*, 86(4), 959-972.
- ❖ **Meyer, K. E., & Nguyen, H. V. (2005).** “Foreign Investment Strategies & Sub-National Institutions in Emerging Markets: Evidence from Vietnam”, *Journal of Management Studies*, 42(1): 63-93.
- ❖ **Li, Y., Li, J., Zhang, P., & Gwon, S. (2023).** “Stronger Together: Country-of-Origin Agglomeration & Multinational Enterprise Location Choice in an Adverse Institutional Environment”, *Strategic Management Journal*, 44(4), 1053-1083.

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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