

Foreign Entry Strategies II
(Mike Peng & Klaus Meyer, International Business)

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Special Topics in Internationalization

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Bergamo, ITALY

Assignments for 29.04.2024 (Monday)



- **Meyer et al. (2009).** “Institutions, Resources, & Entry Strategies in Emerging Economies”.
 - ❖ Lucien Gautier / Vasilisa Supritkina / Aleksan Arushanyan

- **Meyer et al. (2005).** “Foreign Investment Strategies & Sub-National Institutions in Emerging Markets: Evidence from Vietnam”.
 - ❖ ~~Luca Martinelli~~ / Lillie Garretty / Savanna Djumaeva

- **Puck et al. (2009).** “Beyond Entry Mode Choice: Explaining the Conversion of Joint Ventures into Wholly Owned Subsidiaries in the People’s Republic of China”.
 - ❖ Patrizia Lorenz / Alessandro Pecis / Maxence Mercier

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**.

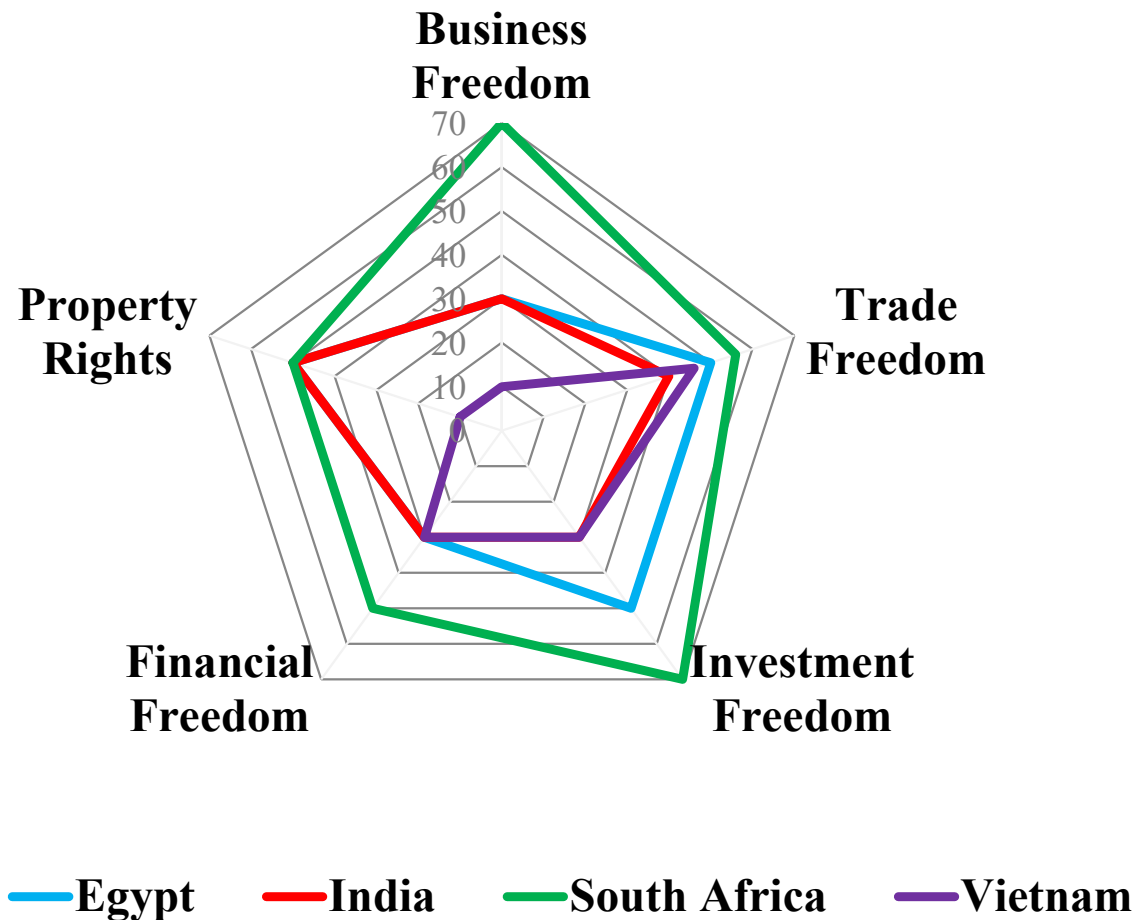
■ Analytical Strategy

- ❖ 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

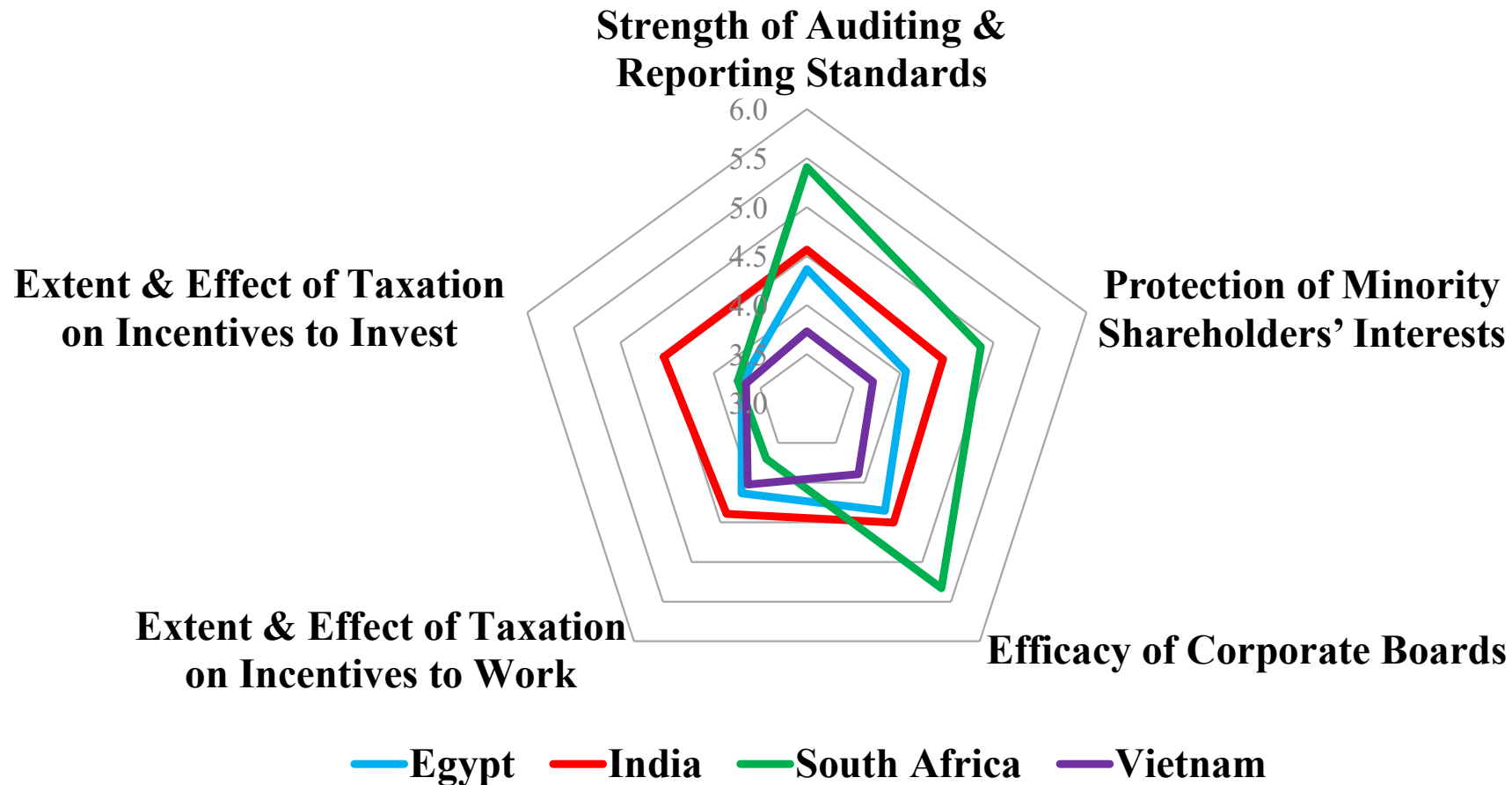
- > Each country has pursued significant **economic reforms** since the 1990s.
- > As a result of reforms, each country experienced a **surge of inward FDI** during the 1990s.
- > **Variations in the local institutional environments** include a fairly developed financial infrastructure.
- > **The institutional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



■ 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)

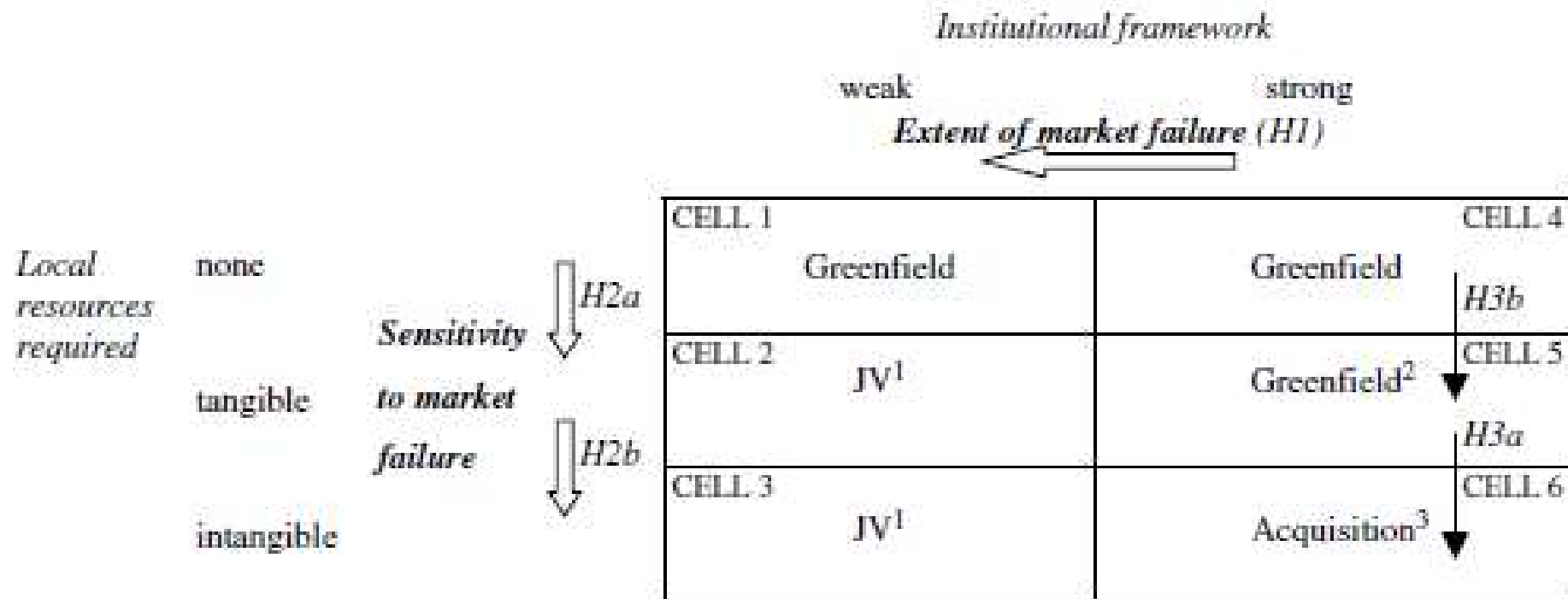
- > If **institutions are very weak** & thus fail to ensure even modes efficiency of markets, **foreign entrants would not be able to rely on markets** to access local resources.
 - **Acquisition** may be prohibitively **costly** because of **the inefficiency of financial markets**.
 - In this situation, 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)

Meyer & Nguyen. (2005). “Foreign Investment Strategies & Sub-National Institutions in Emerging Markets: Evidence from Vietnam”, *Journal of Management Studies*.

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FDI Strategies & Sub-National Institutions



■ Where & How to Enter Southeast Asia





■ Reading Questions

- ❖ **Q1:** What is the major argument of this article? **How** is it related to the IB context? **Why** do you think it very important?
- ❖ **Q2:** What is the uniqueness or originality of this article?
- ❖ **Q3:** What does it mean by “*institutions influence the evolution of resources & capabilities*”?
- ❖ **Q4:** Clarify **how** institutional change looks like in Vietnam.
- ❖ **Q5:** Explain **how** institutions affect (1) location strategies & (2) foreign investors’ entry mode choice in Vietnam.
- ❖ **Q6:** What does it mean by “*the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.*”?



■ Questions

- ❖ **Q1:** What is the **major argument** of this article? How is it related to the **IB context**? Why do you think it very important?
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■ Question 1

❖ Key Points

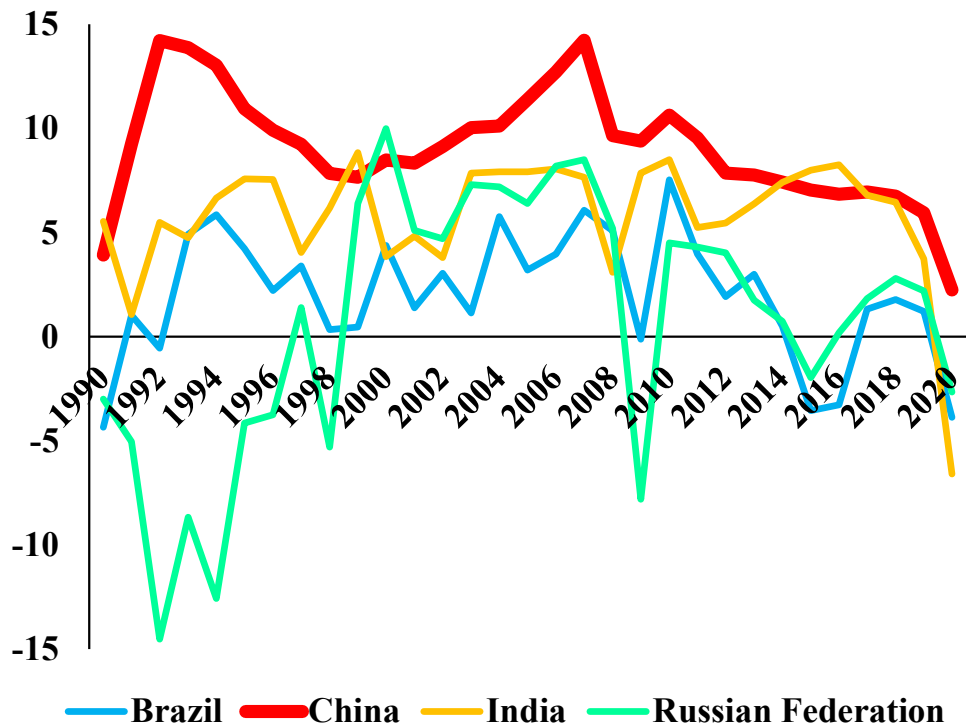
- > Investors need to adapt their strategies to formal & informal institutions prevailing at the host location, especially when entering emerging economies like **BRICs & VIPs**.
- > **Institutions** play a critical role in affecting foreign firms' market entry strategies (*i.e.*, **location choice & entry mode**) in **Vietnam**.
- > **Sub-national institutional forces** are **influential** in deciding where & how to set up foreign investors' local business operations.

FDI Strategies & Sub-National Institutions

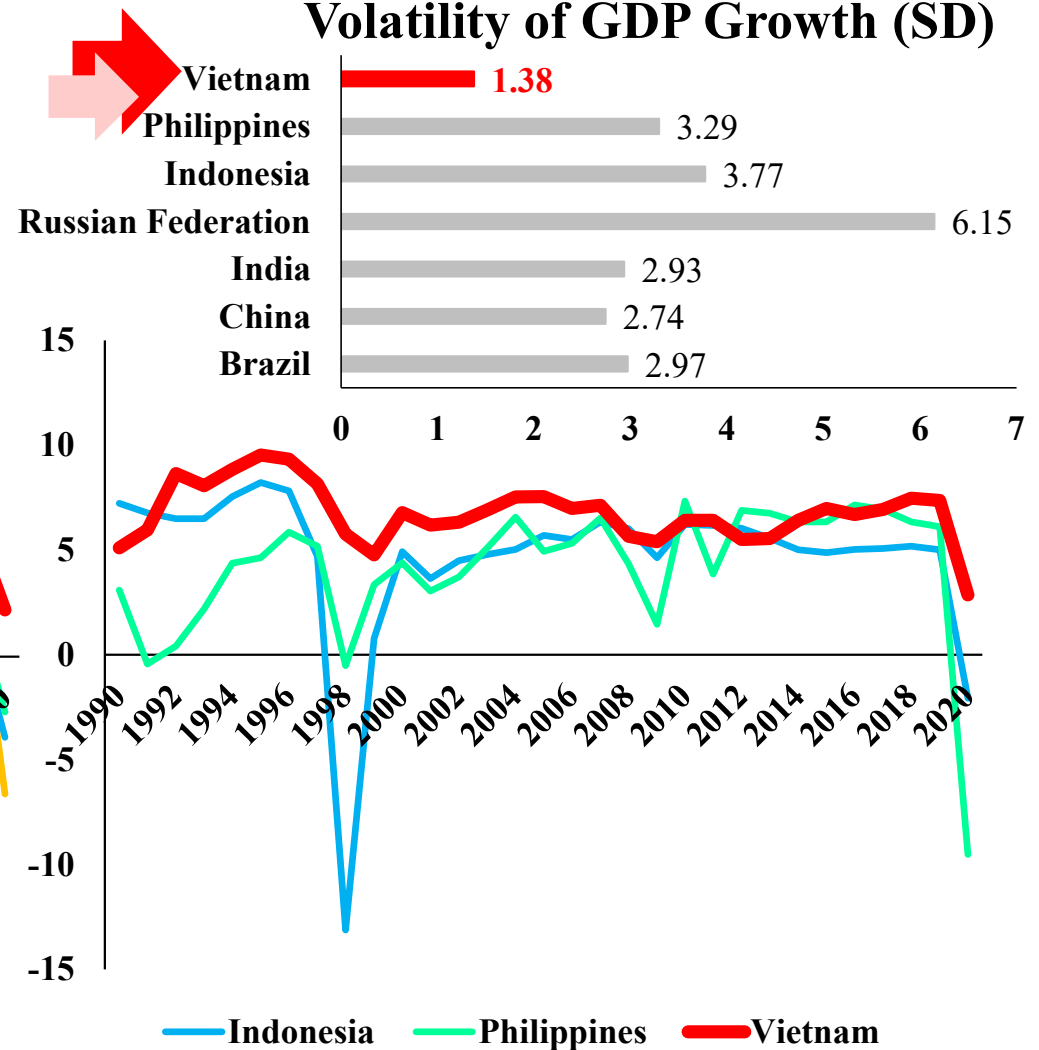


Question 1

❖ GDP Growth (Annual %)



Volatility of GDP Growth (SD)



Source: Own illustration based on World Bank (<https://data.worldbank.org/indicator/NY.GDP.MKTP.KD.ZG>).



■ Questions

- ❖ Q1: What is the major argument of this article? How is it related to the IB context? Why do you think it very important?
- ❖ Q2: What is the **uniqueness** or **originality** of this article?
- ❖ Q3: What does it mean by “*institutions influence the evolution of resources & capabilities*”?
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■ Question 2

❖ Key Points

- > The vast majority of prior work directed attention **exclusively to national institutions**.
- > **Few IB studies** consider the important strategic decision of where to locate an FDI project in a country.
- > Most studies focus on FDI among **mature market economies**.
- > The beauty of this study is to look into the issue of **variations in institutional development within a country**.
- > This paper explains the extent to which **sub-national institutions** influence ‘2’ **aspects of corporate strategies**.
- > “**Location advantages**” have long been a **neglected factor** relative to “ownership advantages” & “internalization advantages” on **Dunning’s OLI framework** (*i.e.*, locational advantages).



■ Questions

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- ❖ Q6: What does it mean by “*the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.*”?



■ Question 3

❖ What are institutions affecting FDI at the country level?

- > Investment incentives, lower tax rates, & absence of performance requirements (Loree & Guisinger, 1995) as well as a one-stop agency, industrial zones, tax holidays, & subsidies.
- > Institutions moderate transaction costs in markets in which foreign investors operate (Meyer, 2001).
- > Institutions may facilitate or inhibit foreign investors' access to complementary resources.

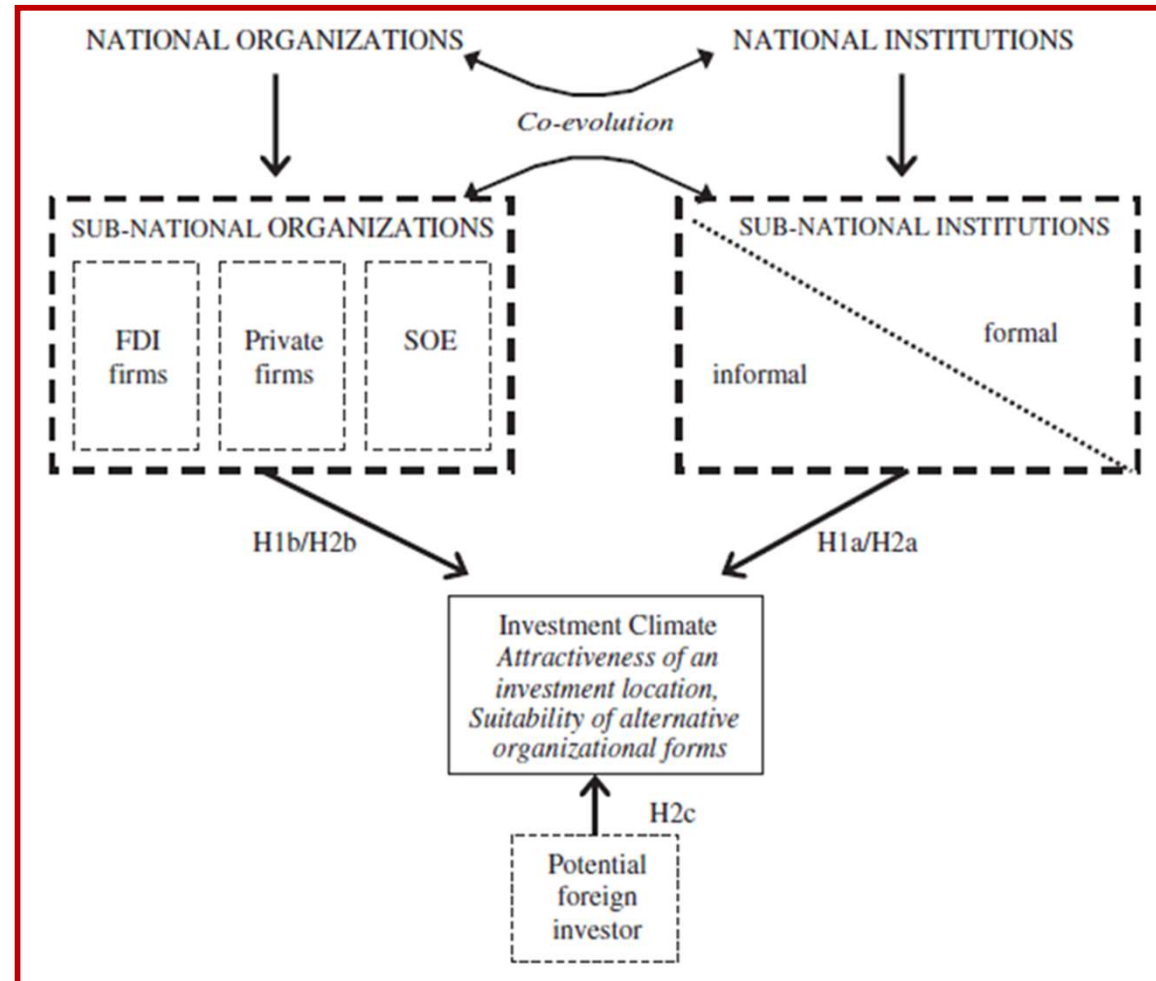
❖ Implementation of FDI policies often takes place locally !

- > Foreign investors have to negotiate with local authorities over business licenses, real estate, access to public utilities, tax incentives & subsidies.
- > These policy variations are related to administrative decentralization.

FDI Strategies & Sub-National Institutions



■ Question 3





■ Questions

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- ❖ Q5: Explain how institutions affect (1) location strategies & (2) foreign investors’ entry mode choice in Vietnam.
- ❖ Q6: What does it mean by “*the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.*”?



■ Question 4

❖ Key Points

- > Vietnam began a gradual path of reform in 1986 following the Chinese example of gradualism.
- > However, the communist party still remains firmly in power.
- > SOEs still contribute more than the domestic private sector to GDP.
- > Historically, private businesses were subject to substantial discretionary interference by governmental authorities.
- > The reforms decentralized some policy responsibilities, which led to varying degrees of change within the country.
- > The foreign investment law of 1996 authorized provinces to grant investment licenses for some FDI projects.
- > For larger FDI projects, provinces are responsible for supporting foreign investors in the preparation of application at central level.



■ Questions

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- ❖ Q6: What does it mean by “*the more developed market-supporting institutions in a region are, the more likely foreign investors are to establish greenfield operations in that sub-national region.*”?



■ Question 5

❖ Location Strategies (Access to Local Resources)

- > Under the decentralized administration in Vietnam, provincial institutions vary by the level of **access to local resources**.
- > The establishment of **industrial zones**: Offer **lower profit tax**, especially **if at least 80% of output is exported**.
- > **Provincial authorities** can **signal their commitment** to create an investor-friendly business climate by providing **real estate for industrial zones**.

❖ Location Strategies (Incumbents = SOEs)

- > Incumbents affect informal rules to **protect their market share**.
- > In transition economies, **lobbies** are related to **SOEs** that can draw upon **long-standing personal networks with authorities**.
- > The **SOEs** control **local resources**, including **business networks, distribution channels & labor markets**.



■ Question 5

❖ Entry Mode Choice (Access to Local Resources)

- > **Institutional barriers** inhibit access to local resources, but foreign investors can **overcome** them through a **JV with a local partner**.
- > **Scarce local resources** often relate to **intangibles** (*e.g.*, marketing & technology-related assets, or to business networks)
- > In Vietnam, **access to real estate is a key constraint**.

❖ Entry Model Choice (Incumbents = SOEs)

- > Incumbent firms are a **powerful lobby** influencing the local institutional framework.
- > **SOEs** are still **important players** & newcomers may find a partnership an important means to **attain legitimacy**.
- > Where **SOEs are strong**, foreign investors may find it **more difficult to prosper alone**.



■ Questions

- ❖ Q1: What is the major argument of this article? How is it related to the IB context? Why do you think it very important?
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Question 6

Institution-Specific Factors

Table IV. Determinants of FDI location; province-level data; negative binomial regression model

| <i>Model</i> | <i>Cumulative FDI</i> <i>1</i> | <i>Cumulative FDI</i> <i>2</i> | <i>Cumulative FDI</i> <i>3</i> | <i>New FDI</i> <i>4</i> |
|-----------------|-----------------------------------|-----------------------------------|-----------------------------------|----------------------------|
| IP real estate | 0.001 (0.000)**** | 0.001 (0.000)**** | 0.001 (0.000)**** | 0.001 (0.000)* |
| IP dummy | – | – | 0.848 (0.359)** | – |
| State-ownership | –0.247 (0.490) | –0.279 (0.497) | –0.790 (0.519) | –0.264 (0.877) |
| Population | 0.4 (0.2)** | 0.3 (0.2)* | 0.4 (0.2)** | –0.0 (0.3) |
| Transport | 2.680 (0.737)**** | 2.558 (0.820)**** | 1.996 (0.724)*** | 0.90 (1.182) |
| Education | 0.717 (0.256)*** | 0.728 (0.257)**** | 0.669 (0.244)*** | 0.300 (0.456) |
| GDP growth | 0.003 (0.001)** | 0.003 (0.001)** | 0.003 (0.001)** | 0.004 (0.002)* |
| Wage level | – | 0.001 (0.002) | – | – |
| FDI in t – 1 | – | – | – | 0.004 (0.004)**** |
| Intercept | 1.088 (0.437)** | 0.874 (0.786) | 1.372 (0.428)**** | –0.511 (0.738) |
| N (provinces) | 61 | 61 | 61 | 61 |
| χ^2 (df) | 56.63 (54) | 70.47 (53) | 55.93 (53) | 74.70 (53) |

Note: Standard errors in parentheses; * = 10%, ** = 5%, *** = 1%, **** = 0.05%.



Question 6

Institution-Specific Factors

Table V. Entry mode choice; FDI survey data; logistic regression model

| <i>Model</i> | <i>Greenfield</i> 1 | <i>Greenfield</i> 2 | <i>Greenfield</i> 3 | <i>Greenfield</i> 4 |
|---------------------------|------------------------|------------------------|------------------------|------------------------|
| IP real estate | 0.001 (0.000)** | 0.001 (0.000)* | 0.001 (0.000)*** | 0.001 (0.000)* |
| State-ownership | -3.75 (1.36)*** | -4.50 (1.53)**** | -4.20 (1.48)**** | - |
| Market orientation | -0.022 (0.01)**** | -0.023 (0.007)**** | -0.022 (0.006)**** | -0.017 (0.006)**** |
| Trend | 0.230 (0.09)** | 0.236 (0.097)** | 0.218 (0.095)** | 0.269 (0.091)**** |
| Transport | -3.33 (1.78)* | -5.45 (2.63)** | -3.41 (1.83)* | -1.48 (1.52) |
| GDP growth | - | - | - | 0.002 (0.006) |
| Population | - | 0.000 (0.000) | - | - |
| Education | - | - | 0.002 (0.002) | - |
| Psychic distance | -0.313 (0.220) | -0.351 (0.227) | -0.305 (0.220) | -0.328 (0.216) |
| FDI stock | 0.002 (0.001)* | 0.002 (0.001)* | 0.001 (0.001) | 0.001 (0.001)* |
| Parent strategy | 0.453 (0.470) | 0.414 (481) | 0.492 (0.476) | 0.415 (0.453) |
| Newcomer | -0.991 (0.593)* | -1.108 (0.602)* | -0.905 (0.604) | -0.871 (0.562) |
| Industry growth | 0.088 (0.47)* | 0.084 (0.047)* | 0.082 (0.048)* | 0.092 (0.046)** |
| Six industry dummies | Yes* | Yes* | Yes | Yes |
| Intercept | -459.0 (188.4)** | -476.4 (194.3)** | -440.9 (191.0)** | -548.1 (182.1)**** |
| n (projects) | 152 | 152 | 152 | 152 |
| χ^2 (df) | 73.0 (16) | 75.0 (17) | 73.9 (17) | 64.0 (16) |
| Nagelkerke R ² | 0.51 | 0.52 | 0.52 | 0.46 |
| Correctly classified | 81.6% | 81.6% | 82.9% | 81.6% |

Note: Standard errors in parentheses; * = 10%, ** = 5%, *** = 1%, **** = 0.05%.

**Puck et al. (2009). “Beyond Entry Mode Choice:
Explaining the Conversion of JVs into WOSs in China”,
Journal of International Business Studies, 40(3), 388-404.**

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The Conversion of JVs into WOSs in China



■ Puck et al. (2009)

FIGURE 1

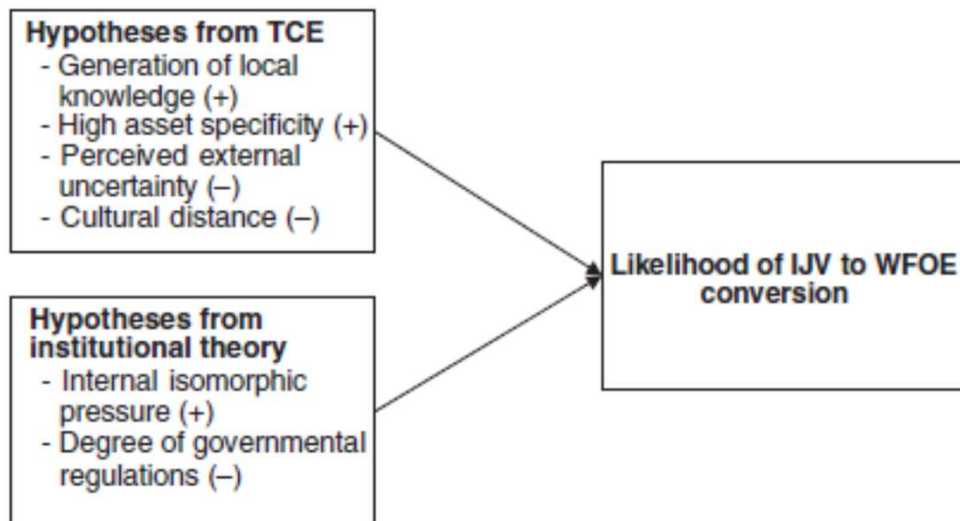


FIGURE 2

| | β_j | Exp(B) |
|------------------------------------|---------------------|--------|
| <i>Hypotheses based on TCE</i> | | |
| Generation of local knowledge | 0.923* | 2.517 |
| Asset specificity | 0.162 | 1.176 |
| Reduction of external uncertainty | 0.782* | 2.186 |
| Cultural distance | -1.160* | 0.313 |
| <i>Hypotheses based on IT</i> | | |
| Internal isomorphic pressures | 1.309** | 3.701 |
| Degree of governmental regulations | -0.388* | 0.678 |
| <i>Control variables</i> | | |
| Competition intensity | 0.104 | 1.110 |
| Diversification | 0.270 | 1.310 |
| International experience | -0.016 | 0.984 |
| Subsidiary size | 0.000 | 1.000 |
| Constant term | -8.036 [†] | 0.000 |

χ^2 : 38.329***; Nagelkerke R^2 : 0.502; percentage correctly classified: 78%.
N=91.

[†]p<0.1; *p<0.05; **p<0.01; ***p<0.001.

Source: Puck et al. (2009: 393 & 396, respectively)

The End of Today's Lecture



ご清聴有難う御座いました。

Thank you so much!

Merci beaucoup !

Vielen Dank für Ihre Aufmerksamkeit!

Grazie mille !

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