Innovative ways of market entry and expansion, adopted for international markets

Abstract

The paper discusses about the innovative ways of market entry and expansion adopted by businesses especially focusing on the international markets. It broadly analyzes the foreign entry mode with equity investments i.e. joint venture (or the collaboration mode), and the wholly owned subsidiary (or the full control mode). The study which is primarily a literature review basically focuses on the different ways in which innovations are involved and how they affect the selected mode of market entry. It further attempts to arrive at relevant propositions related to different modes of market entry in to foreign markets.

Key words

Innovation, market entry, international markets, collaboration, full control mode

Introduction

The fast changing market place is continuously presenting businesses with new opportunities and challenges which can either result in big gains, or even uncontrolled losses. For managing such situations, businesses are increasingly looking forward to new markets even crossing the domestic boundaries. In the face of globalization threats, many firms attempt to expand their sales into foreign markets (Knight, 2000). Cavusgil and Zou (1994) have already highlighted the significance of international expansion, in providing with new markets, facilitating innovations, and increasing firm's competitiveness. Caves (1982) discuss about stabilization of the firm's earnings through a broad international market scope, and Hitt et al. (1994) further point at the increased chances of survival. Boundaries between domestic and international markets are becoming less relevant as businesses increase their profiles abroad (Knight, 2000). Such international expansions also indicate various positive fallouts for businesses; McDougall & Oviatt (1996) make a mention of the evidence where new ventures with international operations usually outperform the ones without any international operations.

In such scenarios, entry and expansion in to markets is becoming highly critical and it becomes still more critical for international markets. As per Bloodgood, Sapienza, and

Almeida (1996), and Chakravarthy and Perlmutter (1985), planning in such ventures is going to be an important step, and it is especially important in case of international ventures where business environment can be more complex.

Objective

The objective of the paper is to study innovative ways of market entry and expansion adopted by businesses while focusing on the international markets. The study broadly discusses the foreign entry mode with equity investments i.e. joint venture (or the collaboration mode), and the wholly owned subsidiary (or the full control mode).

Approach

The study has undertaken a literature review discussing how a “full control” or a “collaborative mode” can involve innovations in different ways for ensuring a successful international venture and tries to arrive at relevant propositions for different situations for different modes for market entry in to the foreign markets.

Findings and Propositions

Every firm tries to make optimum use of its resources so as to succeed in foreign markets. As per Ilinitch and Zeithaml (1995), high degree of control over local operations helps in better utilization of core skills of a foreign firm. Yi-Chien Chang et al. (2012) also discuss similar points when he mentions of higher controls enabling the parent company to exploit its existing advantages via rapid application of experiences and practices and also avoiding the higher costs occurring due to partner’s unfavorable conduct. Staying close to the corporate core is mentioned as theoretically possessing high potential for success (Palich et al., 2000; Pehrsson, 2006; Rumelt, 1982). Extension of firm’s strength through the full control mode also helps in producing economic rents (Barney, 1988; Busija et al., 1997; Harrison et al., 1993).

With the growing experience, knowledge base and the resulting confidence levels, the option of a wholly owned subsidiary starts appearing more attractive to the foreign firms. One can try quoting the related example of gradual shift of Maruti Udyog Ltd. to Maruti Suzuki in India taking place. Apart from core skills, the brand of a firm can also be considered as a critical resource and the mode of entry can influence the way this resource is utilized. Samiee (2013) highlights how once the brand is better known and the customer base increases, the firm would like to invest in a wholly owned subsidiary.

The route of acquisition can further help the firm in saving time and efforts required in capacity building and knowledge transfer. For eg., Morschett et al. (2010) mention that an acquisition can grant a quick access to the production capacity and knowledge and can result in a quicker knowledge transfer as compared to the case of cooperation. Discussing the resource based view, (Agarwal and Ramaswami, 1992; Ekeledo and Sivakumar, 2004) highlight the importance of full control in exploiting corporate resources and Pehrsson (2008) also mention protection of sustainable advantage.

Resources like competence, brand etc can prove to be highly vital while entering any new market setting. Further, quick imitation of such resources may not be possible for the existing competitors, making these to be critical for achieving a sustainable competitive advantage. Brand identity and recognition (originating from core business unit) can be a sustainable competitive advantage (Pehrsson, 2004). Dollinger et al (1997) discusses about protecting the brand through full control modes. Applying resources in form of earlier experiences of the firm are critical as well. Ekeledo and Sivakumar (2004) and Gomes-Casseres (1989) also link extensive experience to full control, in a positive way.

Finally, it can be safely assumed that, irrespective of the earlier experience, brand strength, and core competence, each market presents newer sets of challenges and opportunities for a firm, and the firm is forced to come out with innovative ways of leveraging its existing resources. One can find various examples where how international food joints are innovating new ways of attracting Indian consumer by making novel changes to their offerings according to the Indian palate, or how international auto giants are trying newer ways of achieving “Just In Time” in managing their operations with respect to Indian situations. Hence, international market entry exposes firms to newer market places and the firm has to invariably apply innovative ideas so as to optimally utilize its resources like experience, core competence, brand name etc. Such innovative leveraging of the resources in new and uncertain situations will require an efficient decision making process, which should be further followed by a smooth implementation of such decisions. Full control over various functionalities can make vital difference in such scenarios. Applying novel ways of utilizing firm’s resources like experience, core competence, brand name etc. resulting in a sustainable advantage, does appear to entail for a full control over the working of enterprise. Hence the first proposition:

Propositions: Full control mode of entry helps in novel utilization of firm’s resources for sustainable competitive advantage.

While working in collaborations, there could be instances where the local partner may try to unfavorably gain from the soft position of foreign firm in the newer markets. Having full control can be advocated in such scenarios. As per López-Duarte & Vidal-Suárez, (2010), Chang et al.(2012) and Zhao et al., (2004), in situations of greater cultural distance, and opportunistic behavior of the partner, the multi-national enterprises tend to choose the option of wholly owned subsidiary which can also reduce the cost of contracting.

Besides, in case of joint ventures, the opportunistic behavior of the partner can further result in escalations of cost to exceptionally high levels making imperative the need for control in a cultural distant country (Chang et al., 2012). They further state the increasing of collaboration risks, when this opportunism is coupled with poor governance of the host country. Discussing in terms of formal and informal institutions they say “However, if informal institution (cultural distance) and formal institution (governance quality) of the host country are both unfavorable to the foreign MNEs (i.e. high cultural distance and poor governance quality), the contracting cost will be too high, driving MNEs to choose the full control arrangement of WOSs”. Also, it can be observed that with poor governance quality chances of opportunistic behavior of the partner may increase. Henisz (2000) mentions the “political hazard” i.e. high threat of opportunism by government where systems can be manipulated by the partner in collusion with local government for their benefit at the expense of the firm.

Hence, with the fluctuations in international markets, firms are hard pressed to find innovative ways of managing cost escalations. When coupled with the opportunistic partner behavior and the governance quality of host country, such escalations can further aggravate. In the initial years of uncertainty, innovative measures for costs management could be required for managing cost escalations, and full control mode of entry can facilitate the success of sensitive financial decisions taken in a newer market situation. Hence, the proposition:

Proposition: For a given governance quality, full control mode of entry helps in innovative management of cost escalations happening due to opportunistic partner behavior.

As discussed earlier, an efficient performance of firm in foreign markets requires swift decision making process. A delayed implementation of decisions and agreements can result in a big blow to the return on investments. As discussed by Brouthers & Brouthers (2001), Kim & Hwang (1992) and Chang et al.,(2012), wholly owned subsidiaries offer the benefits of decisions being made freely and one can eliminate the concerns happening due to partner’s opportunistic behavior. Further, they also discuss about the increasing costs resulting due arranging, monitoring and enforcing the collaborative agreements.

Also, managing conflicts occurring due to decisions and difference of interests can be better managed in a full control of market entry than in the collaboration mode. Conflicts arising due to situations like hiring or firing of the deserving personnel can be handled relatively in an easy manner. As discussed by Anderson & Gatignon (1986), Hill et al. (1990) and Slagena & Tulder (2009), the internal misunderstandings between parent country managers and local employees are easier to resolve in wholly owned subsidiaries than in joint ventures, and laying off and hiring of workers as per the performance is comparatively easier. Bjo¨rkman & Lu (2001), Stopford & Wells (1972) and Tsang (1994) also discuss about the difficult situations firms find themselves in, when the local partner using the decision making opposes layoffs.

Conflicts arising in a new market space will often require new ways of resolutions and hence while in making an entry in to new international markets, the firms will invariably have to devise innovative ways of managing such conflicts. An effective and quick conflict management especially related to bigger issues like recruitment etc can directly impact returns on investments, and a full control mode of entry should facilitate the effective and innovative management of conflicts management, directly affecting return on investments. Hence the proposition:

Proposition: As compared to the collaboration mode, full control mode of market entry facilitates innovative conflict management, directly affecting returns on investment.

While devising entry strategy in to foreign markets, the governance quality is a critical parameter to be considered. As per Chang et al.,(2012) a satisfactory quality of governance will be effective in restricting the opportunistic behavior of the partner erasing the need for a full control. Henisz (2000) emphasizes the lower cost of contracting with good governance quality. Chang et al., (2012) even mention good governance quality encouraging multinationals opting for joint ventures for enjoying various benefits in spite of cultural differences. Delios & Henisz (2000), Henisz (2000) and Yiu & Makino (2002) discuss how local partner's presence can reduce chances of uncertainty stemming from the ill treatment due to poor governance of the host country.

Hence the governance quality of host country can directly affect the collaborations of foreign multinationals with the local industry, and such collaborations provide local industry with opportunities to develop themselves through innovation and learning via collaborative mode. Hence the following proposition:

Proposition: Governance quality of the host country affects the opportunities for local industry of innovation and self-development resulting due to foreign collaborations.

High level of cultural difference naturally demands of a collaborative approach. Studies by Chang & Rosenzweig (2001) and Erramilli & Rao (1993) rightfully associate culture distance with the preference for joint ventures. Broadly, the local knowledge and the lower management costs make collaboration a preferable option. Kim & Hwang (1992) highlight how local partner's knowledge can be utilized for bridging the culture gap and Gatignon & Anderson (1988) emphasize on the reduction of costs. In situations of large cultural distances, situation of knowledge barrier can occur and a local partner in such situations can be of much help Anand and Delios (1997). Studies by Barkema, Bell, & Pennings, (1996) and Beamish & Banks (1987) further discuss local partner's knowledge resulting in risk reduction. Hill et al. (1990) highlight the flexibility associated with the joint venture helping multinational enterprises investing in culturally distant countries involving higher levels of uncertainty and resultantly higher chances of failure.

Further, managing expenses and ensuring the safety of the investments in foreign markets are major concerns for any multinational enterprise. Brouthers & Brouthers (2001) and Kogut (1991) discuss the lower exit costs and the increased flexibility in the instances where the enterprise is planning to enter foreign market through a joint venture. Anderson & Gatignon (1986), Delios and Henisz (2000) and Kogut (1991) also highlight the reduced resource requirements, increased flexibility and lower exit costs in green field joint ventures and partial acquisitions, as compared to the wholly owned green field and full acquisitions. In context of a resource based perspective, for protecting company's resources in a high country risk situation, complete ownership is avoided (Agarwal and Ramaswami, 1992; Contractor and Kundu, 1998a, 1998b). Brouthers and Brouthers (2001) highlight the lowering of the overall operational costs in joint ventures (as compared to full control mode of entry) due to sharing of managerial responsibilities by the local partner.

Hence, besides managing different variables like situational uncertainty and cultural distances, a multi-national enterprise also has to ensure that its own skill and knowledge are rightly utilized. Here, every situation being a new situation, a normal approach towards knowledge management may not help. Innovations in such situation become highly imperative which should also involve innovative application of local partner's knowledge supporting the core competence of the firm. Further, while facing totally new market scenarios, the collaborations provide an opportunity where the local partner's knowledge can be applied in newer ways to ensure safer investments and maintaining flexibility at the same time. Hence the proposition:

Proposition: Collaboration mode of entry in to international markets facilitates newer applications of local knowledge for ensuring safer investments and flexibility.

Hence broadly it can be observed that irrespective of the choice of market entry mode the firm adopts, innovations at different fronts cannot be avoided and in the present dynamic market situation, an innovative approach towards newer market situation can result in a successful international venture.

Research limitations

Research is primarily a literature review and the propositions discussed can further be tested for arriving at proven hypothesis. The study can also be done sector specific which can analyze the opportunities and challenges associated with a particular sector. A similar study can also be under taken considering a particular geographical region, country or group of countries in to consideration. A synthesis of results obtained from studies done sector wise and geographical region wise can further add to the knowledge in the field of how innovations at various levels and modes of market entry can ensure a successful international venture.

Implications of the study

This attempt of arriving at a realistic application of academic concepts to the actual business scenarios discussing how a “full control” or a “collaborative mode” can involve innovations in different ways should benefit both scholars and practitioners alike. As for academicians it provides for a discussion on the significance of innovation involved in different market entry modes and for the practitioners, it provides with an opportunity of reviewing their market entry decisions and views with a relevant academic input.

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