CHAPTER 4

RESOURCE BASED FRAMEWORK FOR MARKET ENTRY STRATEGIC CHOICE

The unceasing quest for better top and bottom line performance attracts firms to foreign markets. The enormous growth and profit potentials in overseas markets and the desire to survive the onslaught of global competition prompted an increasing number of firms in various countries to develop strategies to enter and expand into markets outside their home locations. However, while such a move can no doubt leap lucrative rewards, it can also be rather perilous. With rare exceptions, products just don't emerge in foreign markets overnight—a firm has to build up a market over time. Several strategies, which differ in aggressiveness, risk, and the amount of control that the firm is able to maintain, are available. A distinguished and prolific stream of literature, devoted to developing normative models of international entry modes, has attempted to build a theoretical foundation for such decisions as well as improve the outcomes experienced by the firms making them. Study of the firm's expansion into foreign markets has received increasing attention at both conceptual and empirical levels. A number of theories and conceptual frameworks have been put forward outlining a company's decision to initiate the internationalization process. Two major theories predominate which despite sharing the same goal of predicting which entry mode will provide the firm with the greatest chance for success, differ significantly in their breadth of perspective, selection of relevant variables and, their conclusions about the default entry mode.

The first internationalization theory, takes a wide-angle industry level view of the international entry mode question by focusing on such external variables as market competition, sources of comparative advantage, free trade, resource mobility, and transferability of knowledge(Ekeledo and Sivakumar,2004). Relying strongly on the tenets of transaction cost theory, internationalization theory concludes that market based organizational relationships are the most efficient for entering foreign markets. While control may be the single most important determinant of both risk and return(Anderson and Gatignon, 1986), the theory recognizes that more control may result in lower efficiency and higher risk in the form of increased financial investment, resource commitment, currency exposure, switching costs, and reduced flexibility.

The internalization theory explains why a firm would own and operate a production facility in a foreign market instead of using licensing or supply agreement with a local business entity in the foreign market. The internalization theory relies heavily on transaction costs analysis to address this issue. The internalization theory considers low-level modes of entry, such as licensing, supply agreement or management contract, to be the default mode of operation; that is, a low-level mode of entry is preferable until proven otherwise (Anderson and Gatignon, 1986).

The ability of the internalization theory to explain entry mode choice in today's international business milieu has been found wanting in a number of areas. The theory is not appropriate for comparing FDI with exporting because it focuses on conditions that lead to market failure which in turn lead to FDI. Market failure arises when there are barriers to free flow of products between countries and when there are obstacles to the sale of know-how. Barriers to the free flow of-products between countries reduce the profitability of exporting, while obstacles to the sale of know-how increase the profitability of FDI relative to licensing.

Also, the theory fails to recognize that strategic consideration, such as capability development or enhancement, may be the motivation for adopting a collaborative mode of entry (Kogut, 1988).

While the internalization theory explains why a firm may choose FDI as an entry mode, it does not explain the role of location advantages in entry mode choice.

To overcome some of the shortcomings of the internalization theory, Dunning (1977, 1980, 1988) propounded an eclectic theory of FDI. This has ownership advantage, location advantage, and internalization advantage as its key components. However, the eclectic model does not provide a unified perspective in the explanation and prediction of entry mode choice (Tallman, 1991).

The model does not explain why two firms in the same line of business and with similar ownership, internalization, and location advantages would not necessarily choose the same entry mode in the same foreign market (Dunning, 1993). Moreover, extant eclectic models ignore the impact of broad product characteristics (goods versus services), home country factors, and boundary variables (weight to value ratio of the product, logistics or transportation costs and currency exchange rates between home and host countries) on choice of entry mode.

Both. the internalization theory and the eclectic theory predict no FDI when there is no market failure, but firms are known to engage in alliances to enhance their competitive advantage or competitive position (Denekamp, 1995). They have been criticized for ignoring a firm's internal characteristics, factors considered to be among the fundamental drivers of a firms strategic behaviour.

4.1 Resource Based Theory

The resource based theory approaches international entry mode decisions with a mid range analytical lens, focusing on the role of the firm's resources and assets (Ekeledo and

Sivakumar,2004). Resource based theory holds that the firm's success derives not only from market forces but also from the firm's capability in managing, responding to, and even manipulating the environment. This theory appears to classify as the income lost from improperly applying the firm's capabilities than the amount of dollars invested to pursue the international opportunity.

According to the resource-based theory it is the firm, and not the industry, which is the source of competitive advantage, (Capron and Hulland, 1999). Competitive advantage resides in the resources (assets and capabilities) available to the firm. It supports the fact that resources are both heterogeneous across firms and imperfectly mobile (Barney, 1991; Hunt and Morgan, 1995).

Though this theory accepts industrial-organization-based (lO-based) theories' view that the firm is a combiner of input and seeker of efficiency in production and distribution, yet it goes farther by pointing out that a firm's success in the marketplace may depend not only on the environment in which the firm operates but also on the firms contribution in shaping that environment (Conner, 1991).

Thus, regarding entry mode selection, the resource-based theory, unlike competing theories, explains not only the differences in entry mode choice observed across firms in an industry, but also why all firms in the industry do not and cannot pursue strategies that are likely to offer the highest returns. Instead, firms adopt strategies that their resources can support. Thus, the resource-based approach to entry mode choice incorporates the core notion of strategic management, the notion that a firm competes well in a setting in which there is a fit between the firm's resources and external opportunities (Conner, 1991; Vasconcellos and Hambrick, 1989).

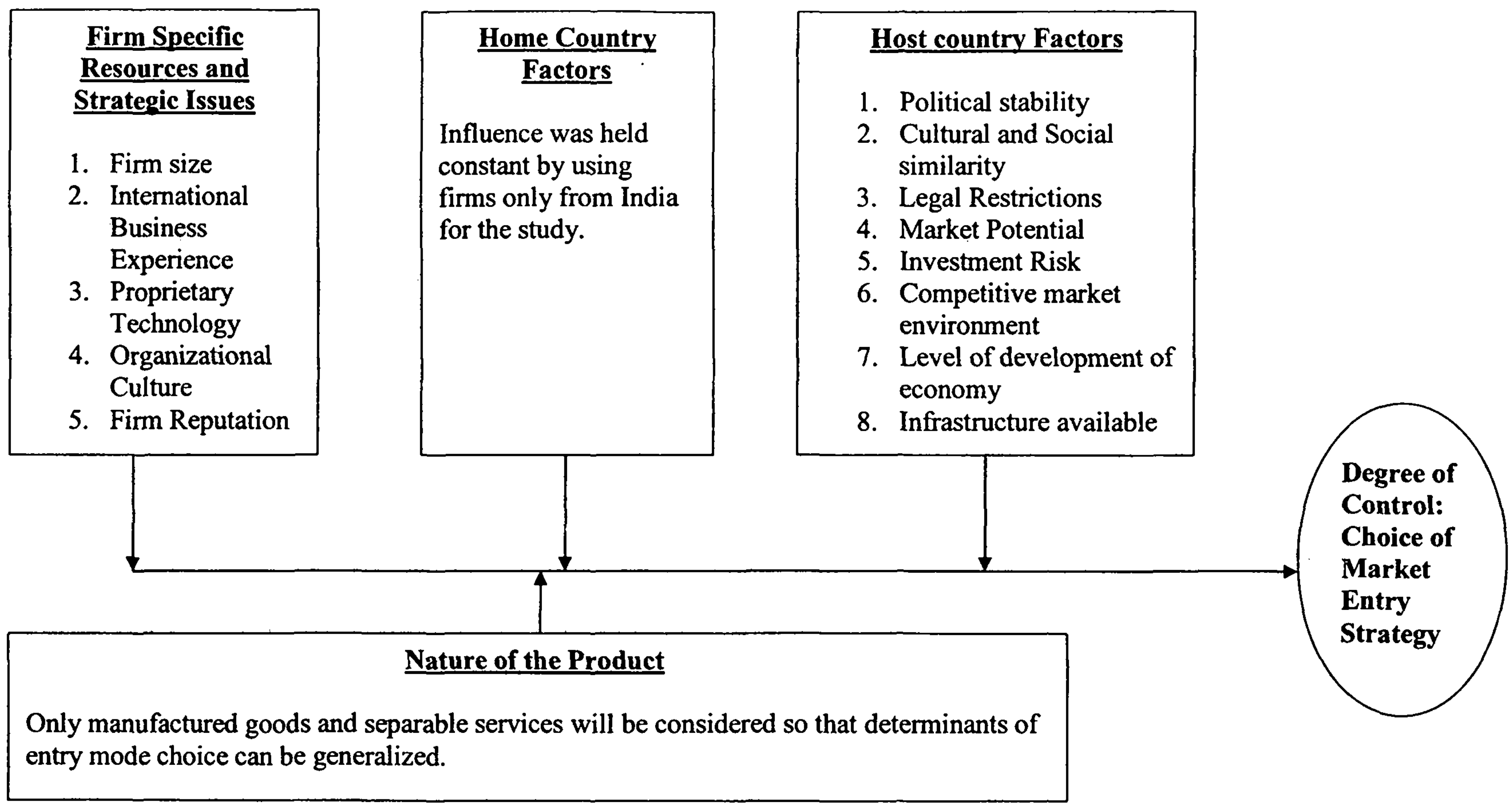
Thus we can say that the resource-based model presents a holistic view of the firm in such a way that decisions like country market choice, mode of entry, product strategies among others are made not on a standalone basis, but within a coordinated framework of resources, capabilities and environmental contingencies. This framework assumes that certain intangible assets such as top management knowledge and experience about foreign markets may substitute other resource types gained through path dependant developmental stages(Reuber and Fischer,1997).

4.2 Resource Based Framework

The figure below presents the developed conceptual framework based on the resource-based perspective. This framework portrays appropriate entry mode as a function of the interplay of firm specific resources and strategic issues (which are the sources of competitive advantage that drive a firm's marketing strategy), home country factors, host country factors, nature of product and degree of control sought by the firm. Since, the techniques for marketing manufactured goods in foreign markets may applied without much modification to separable services (Bhagawati, 1984; Samson & Snape 1985), the study shall consider only manufactured goods and separable services from India as Indian products when devising market entry strategies. Influence of the home country factors is held constant as the study involves firms only from India.

Figure 4.1

Resource Based View of Firm's Market Entry Strategy- Factors for Consideration



Source: 'International Market Entry Mode Strategies of Manufacturing Firms and Service Firms: A Resource Based Perspective, 2004'.

4.2.1 Host Country Factors

The host country environment plays a major role in the selection process. The macro environment presents several political, legal, social and cultural factors that needs to be analyzed before a firm begins its marketing process. The market potential present for the product and competitive situation has to be considered before drafting marketing strategies. In addition to these, the infrastructure available in the host country and the investment scenario is of considerable importance.

4.2.1.1 Competitive Target Market in the Host Country

The number of competitors and the competition faced due to the presence of similar and substitutable products in the host country can lead a firm to adopt or drop the choice of a particular market entry strategy. Types and number of competitive products available in the market, competitor's market share, coverage, and growth rate in the host country, advantages and weaknesses of the competitors in the host country(for e.g. uniqueness of competitor's product and facilities for distribution), presence of similar and easily substitutable products available from competitors, price levels on competitive products compared to your CIF(costs, insurance and freight) price in the host country need to be considered.

Following variables shall be used in this study to depict the above mentioned factors:

V2= greater types and number of competitive products are available in the market.

V3= competitor's market share, his coverage, and growth rate in host country.

V4= the advantages and weaknesses of the competitors in the host country market(for e.g. uniqueness of competitor's product and facilities for distribution)

V5= the presence of similar and easily substitutable products available from competitors

V6= the price levels of competitive products compared to your CIF(costs, insurance and freight) price in the host country market.

4.2.1.2 Legal Environment in the Host Country

The amount of legal restrictions imposed on trade and commerce by the host country has a major impact on the choice of market entry choice. For example, foreign import regulations in the host country, tariffs, import duties and taxes assessed by the host country on the products, tariff concessions allowed by the foreign country (i.e. drawbacks, preferential tariffs), non tariff barriers like product standards imposed by the host country (e.g. local assembly laws, local safety and environmental regulations), regulations on limitations on the share of the foreign investor in the host country are some variables to be analyzed.

These factors shall be represented by the following variables in this study:

V7= the foreign import regulations in host country

V8= tariffs, import duties and taxes assessed by host country on your products

V9= the tariff concessions allowed by host country(i.e. drawbacks, preferential tariffs)

V10= the non tariff barriers like product standards imposed by the host country govt.(e.g. local assembly laws, local safety and environmental regulations)

V11= regulations on limitations on the share of the foreign investor in host country

4.2.1.3 Political Environment in the Host Country

The political situation of the host country and its political relations with the home country has a large impact on market entry mode. Whether there are good diplomatic and political relations between home country and the concerned host country, whether it is a politically stable environment as depicted by the extent of representation and confidence of people in their Government affects the market entry choice. The foreign government's internal policies, attitudes and actions towards private enterprise is also important.

These factors shall be represented by the following variables in this study:

V12= the good diplomatic and political relations between India and host country

V13= the politically stable environment as depicted by the extent of representation and confidence of people in their Government

V14= the foreign government's internal policies, attitudes and actions towards private enterprise

4.2.1.4 Social and Cultural Environment in the Host Country

The extent of similarities and differences in culture and social environment between the home and host countries affects the market entry choice. Degree of cultural unity and national integration in the host country(ies), differences in lifestyle and customs of various groups in the host country, cultural similarities between home country and the host country, problems due to different languages of the home and host countries affect modal choice.

Following variables shall be used in this study to depict the above mentioned factors:

V15= the degree of cultural unity and national integration in Host country

V16= the differences in lifestyle and customs of various groups in Host country

V17= the differences in lifestyle and customs of various groups in Host country

V18= the problems due to different language in Host country

4.2.1.5 Investment Risk in the Host Country

An important deciding factor for market entry strategy is whether the investment in the foreign country is safe or not. Investment policies, rules and regulations are important for any firm wishing to go abroad. Availability of tax advantages in the host country, risk of converting and repatriating profits to the home country, availability of investment incentives in the host country, Foreign Investment Policy of the host country Government play an important role in modal choice.

Following variables shall be used in this study to depict the above mentioned factors:

V19= the availability of tax advantages in Host country

V20= the low risk of converting and repatriating profits to India

V21= the availability of investment incentives in Host country

V22= the Foreign Investment Policy of Host country Government

4.2.1.6 Market Potential in the Host Country

The market potential present for the concerned product in the host country can also drive a marketer to use or inhibit him from using a particular market entry strategy to establish his presence on the foreign soil. Average annual sales of your type of product in the GCC state, future trends and growth rate of the foreign market in which your product would be sold, purchasing power of customers of the GCC state, adaptation costs associated with products, differences in product usage in the GCC state, need to change your product specifications due to differences in foreign buyer's tastes and preferences or technical requirements can inhibit or drive the marketer to adopt a particular market entry mode.

These factors shall be represented by the following variables in this study:

V23= the average annual sales of your type of product in Host country

V24= the future trends and growth rate of the Host country market in which your product would be sold

V25= the purchasing power of customers of Host country

V26= the adaptation costs associated with products

V27= the differences in product usage in Host country

V28= the need to change your product specifications due to differences in foreign buyer's tastes and preferences or technical requirements

4.2.1.7 Level of Development and Economic Welfare of the Host Country

Whether the economy is developed, developing or under developed, will ultimately affect the choice of market entry. Gross National Product and per capita income in the host country, education and employment levels in the local population, availability of reserves in the host country, wealth of the foreign country in natural resources and the extent of their development need to be addressed to understand the impact of level of development on the market entry choice.

These factors shall be represented by the following variables in this study:

V29= Gross National Product and per capita income in Host country

V30= education and employment levels in the local population

V31= the availability of reserves in Host country

V32= the wealth of Host country in natural resources and the extent of their development

4.2.1.8 Infrastructure available in the Host Country

Any firm establishing presence on foreign soil will need appropriate infrastructure to carry out its operations. Costs and efficiency of transportation to the host country from home country(airlines, shipping lines etc.), costs and efficiency of transportation within the host country(roads, highways etc.), costs and efficiency of physical handling and warehousing in the host country, costs and efficiency of communications to the host country from the home country(email, phone etc.), costs and efficiency of communications within the host country(e.g. commercial broadcast media, print media), costs and efficiency of trade fairs and industrial exhibitions in the host country affect market entry strategy.

Following variables shal! be used in this study to depict the above mentioned factors:

V33= the Costs and efficiency of transportation to Host country from India(airlines, shipping lines etc.)

V34= the costs and efficiency of transportation within Host country (roads, highways etc.)

V35= the costs and efficiency of physical handling and warehousing in Host country

V36= the costs and efficiency of communications to Host country from India(email, phone etc.)

V37= the costs and efficiency of communications within Host country(e.g. commercial broadcast media, print media)

V38= the costs and efficiency of trade fairs and industrial exhibitions in Host country

Thus, a vector of variables depicting the various host country factors has been compiled. The significance of these factors for the adoption of different market entry strategies shall be analyzed after collecting the required data.

4.2.2 Firm Specific Resources and Strategic Issues

Since the resource based theory propagates that a firm competes well in a setting in which there is a fit between the firm's resources and external opportunities, there lies the need to evaluate the influence of firms specific resources and strategic issues on the adoption of market entry strategy.

4.2.2.1 Size of the firm

To understand the impact of the size of the firm on the modal entry choice, the average turnover of the firm should be considered before choosing a market entry strategy. The variable V39 will represent the average turnover of the firm in the study.

4.2.2.2 International Business Experience of the firm

To understand the impact of international business experience of the firm on the appropriate market entry strategy, the number of years since the firm has been involved in international business, the number of years of experience in the particular industry in which the firm is operating should be considered.

Following variables shall be used in this study to depict the above mentioned factors:

V40= the number of years since the firm has been involved in international business

V41= the number of years of experience in the particular industry in which the firm is operating

4.2.2.3 Proprietary technology that is a sustainable competitive advantage in the host country

Unique patent(s) possessed by the firm, trademark of the firm, brand name recognition in the host country do affect the adoption of market entry strategy. Following variables shall be used in this study to depict the above mentioned factors:

V42= the Unique patent(s) possessed by the firm

V43= the Trademark of the firm

V44= the Brand name recognition in Host country

4.2.2.4 Organizational Culture of the firm

Each organization has its culture of its own which is depicted in its rituals, customs, language used, and physical surroundings and so on. The organizational culture and working environment has a major impact on the adoption of an appropriate market entry strategy. Market entry modal choice is dependent on factors like whether the firm encourages open discussion, de-emphasizes status distinction, encourages experimentation and tolerates mistakes and favors promotion from within the firm itself.

To study the significance of these factors on market entry strategy, following variables will be used in the study to depict the factors:

V45= firm encourages open discussion

V46= firm de-emphasizes status distinction

V47= firm encourages experimentation and tolerates mistakes

V48= firm favors promotion from within

4.2.2.5 Firm's Reputation for superior product, process or management technology

Certain variables need to addressed when assessing the impact of firm's reputation on the adoption of an appropriate market entry strategy. For example, importance of protecting reputation for superior production process, protecting reputation for superior management, protecting reputation for superior quality, protecting reputation for technological innovativeness needs to be addressed.

To study the significance of these factors on market entry strategy, following variables will be used in the study to depict the factors:

V49= protecting reputation for superior production process

V50= protecting reputation for superior management

V51= protecting reputation for superior quality

V52= protecting reputation for technological innovativeness

Thus, a list of variables has been compiled to study the significance of firm specific resources and strategic issues on market entry strategic choice. Respondents would be asked for their significance and findings would be presented after analysis and interpretation.

Thus, the study shall use the above developed *resource based framework* to analyze the significance of host country factors and firm specific resources and strategic issues on market entry strategic choice. If host country factors and firm specific resources and strategic issues are found to affect modal choice, this framework would be supported as a good predictor of market entry strategic choice.

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