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# Re-explaining international entry modes – Interaction and moderating effects on entry modes of pharmaceutical companies into transition economies

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## ABBREVIATIONS

CEE, Central and Eastern Europe;

Gx, generic drugs;

JV, joint venture;

MNE, multinational enterprises;

OTC, over the counter drugs;

Rx, patented prescription drugs

## KEYWORDS

Entry mode choice;

Internationalisation;

Corporate strategy;

Transition economies;

Pharmaceutical

industry;

Grounded theory

**Summary** This paper adopts a qualitative approach based on the principles of grounded theory to investigate interdependencies between factors affecting the choice of market entry modes. A conceptual model is developed in the context of pharmaceutical companies expanding into transition economies. Building on Dunning's eclectic theory, the case analysis indicates that both initial and subsequent entry mode decisions result from a changing trade-off between specific market potential and risk factors. Another conceptual contribution of the paper is that this interplay is moderated by product differentiation, prior experience in a similar context and cultural distance, which adds a new perspective to extant research. By using the construct of resource commitment level, the proposed framework accommodates for the fact that multiple entry modes, including non-transactional operations, can be selected in a given market. While the empirical study has an industry-related focus and thus generates practical insights, its implications for theory building are discussed in a broader perspective.

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## Introduction

The choice of the market entry mode has been regarded as one of the most crucial decisions in the internationalisation of a firm (Anderson & Gatignon, 1986; Erramilli & Rao, 1993;

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Hill, Hwang, & Kim 1990), which has important influence on performance (Brouthers, 2002). After deciding to enter a foreign market, a company must choose an appropriate mode of entry, which Root (1994) defines as an institutional arrangement that enables the introduction of a company's products, management or other resources into a foreign country. In distinguishing between different modes of entry, firms need to be aware of how many resources need to be committed in order to gain competitive advantage (Anderson & Gatignon, 1986; Root, 1994). Companies can thereby choose between non-equity (e.g. export or contractual agreements) and equity (e.g. wholly owned subsidiary or joint venture) entry modes (Kumar & Subramaniam, 1997).

In general, a vast number and heterogeneity of proposed entry mode contingencies can be identified (Madhok, 1998). However, extant research examines single theories and related explanatory variables in isolation (Hill et al., 1990), leading to partly conflicting or inconclusive results (Tihanyi, Griffith, & Russel, 2005). At the same time, evidence for interactions between determinants of entry mode choice exists (Agarwal & Ramaswami, 1992; Erramilli, Agarwal, & Kim, 1997), which requires distinguishing between their direct and indirect effects (Calof & Beamish, 1995). Moreover, extant research has focused on the analysis of the first market entry, disregarding subsequent choices and their determinants (Calof, 1993). Accordingly, the main objectives of this paper are to establish what interdependencies between environmental and company-specific variables determine the entry mode choice in the context of first entry and subsequent commitment changes.

In order to examine these complex relationships, we chose a qualitative research design for our study, in which the entries of pharmaceutical companies into transition economies are examined. The adopted focus was not only to allow exploring the dynamic interplay of entry mode determinants, but also specifying in greater detail the explanations of expansion decisions in these markets and thus providing practical insights.

The following section starts with a short literature review, derives the research objectives for the present study, explains the chosen focus and presents the adopted theoretical background. Section "Research method" describes the integration of theory into an own qualitative design. A presentation of the research method used is then followed by a detailed account on emergent conceptual model in the following Section. In Section "Discussion of results and theoretical propositions", we build on the conceptual model to derive a set of theoretical propositions and discuss these in the context of international business literature. The last Section concludes with some theoretical and practical contributions as well as limitations of the study.

## Theoretical background

### Extant research on entry modes and research questions

The factors affecting entry mode decisions have received broad attention of international business scholars in numer-

ous empirical studies (Morschett, Schramm-Klein, & Swoboda, 2010). Different theoretical approaches have been adopted, including the transaction cost theory (Brouthers & Brouthers, 2003; Meyer, 2001), internalisation theory (Buckley & Casson, 1976; Buckley & Casson, 1998), the resource-based view (Child and Czeglédy, 1996; Meyer & Estrin, 2001), the organisational capability approach (Madhok, 1998) or institutional theories (Brouthers & Bamossy, 1997; Brouthers & Brouthers, 2001; Child & Markóczy, 1993), delivering a number of explanatory variables at each time. These various influence factors can generally be attributed to several levels of analysis, including environmental (home and host country), company-specific and transaction- or subsidiary-specific variables (see e.g. Hill et al., 1990).

However, extant studies on entry mode choice reveal partly conflicting results. As regards factors related to the target market, there is a general agreement among scholars that market attractiveness is a paramount factor in market selection and entry mode choice and that it implies a higher level of resource commitment to the foreign venture in order to gain economies of scale or to secure and establish a long-term presence (Agarwal & Ramaswami, 1992; Brouthers, 2002; Erramilli et al., 1997). Defining market attractiveness as a function of market growth, empirical studies investigating its influence on the choice between wholly owned subsidiaries and cooperative entry modes are not consistent in their results (compare e.g. Gomes-Casseres, 1990 with Elango & Sambharya, 2004). The same issue relates to the impact of the income level of the target market (see e.g. Contractor & Kundu, 1998; Delios & Henisz, 2000). On the other hand, entrants also take risk factors in the target market into consideration. While the majority of studies indicate that country risk leads to cooperative arrangements as an entry mode (for an overview see Zhao, Luo, & Suh, 2004), results implying preference for wholly owned subsidiaries can also be found (e.g. Tsang, 2005). Moreover, one can note that the analysis of direct influences on entry mode choice has focused on dichotomous decisions, examining usually two (e.g. Gomes-Casseres, 1990) or three (e.g. Erramilli & Rao, 1993; Hill et al., 1990; Kogut & Singh, 1988) entry modes at a time. Yet, restricting the selected factors and specific decision alternatives may result in a partial behaviour analysis (Dunning, 1988). Hence, the findings might remain specific to a certain decision context and difficult to generalise.

In an attempt to understand possible reasons for the heterogeneous results of previous research, one should get back to the very character of entry mode decisions, which are highly strategic by nature. They are ill-defined, complex and dynamic (Kumar & Subramaniam, 1997), whereby individual values and attitudes play an important role for decision making (Bamberger, 1986; Wrona & Breuer, 2008). Accordingly, their analysis should not only consider exogenous variables, but also on variables that can influence strategic choices by companies. Among such company-specific factors, international experience was found to increase the preference for entry modes with higher resource commitment (e.g. Anderson and Gatignon, 1986; Erramilli, 1991), but on the other hand a negative relationship could be observed (Chung & Enderwick, 2001). Further, the impact of cultural distance on entry mode choice has been extensively examined, however also with contradictory results. In some studies, including Erramilli and Rao (1993),

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