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Examining market entry mode strategies via resource-based and institutional influences: Empirical evidence from a region-within-country economy context

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ABSTRACT

This research has two major purposes. The first is to develop and test a framework for market entry mode choice drawing on the resource-based theory and institutional theory in the context of region-within-country from marketing perspective. On this issue resource-based influences and environment influences are key drivers of entry mode strategies. Specifically, the central proposition is that a firm selects market entry strategies that its resources (firm characteristics, product characteristics, and firm size) can support and this selection also depends on the firms' perception of two environments (home market characteristics and host market characteristics). The second is to test the theoretical framework within the special situation of Hong Kong firms' entry modes into Mainland China as a specific economic region-within-country context. A mail survey was used to gather data from 208 senior executives of Hong Kong firms undertaken. The results show that firm characteristics, product characteristics, home market characteristics, and host market characteristics (but not firm size) significantly influence the choice of equity mode entry mode strategies for firms from Hong Kong entering other economic zones within Mainland China.

1. Introduction

The international market entry mode choice of firms has become a major field of interest in the international marketing (see Agarwal, 1994; Bradley and Gannon, 2000; Dow and Larimo, 2009; Malhotra et al., 2002; Mayrhofer, 2004) and international business (Agarwal and Ramaswami, 1992; Brouthers, 2002; Chan et al., 2006; Erramilli, 1996) literature. While the international marketing literature has devoted considerable attention to a range of issues related to entry mode, there are still gaps in the literature that this study seeks to address. First, the current literature places much emphasis on studying the entry mode strategy of firms (from a specific home country), who enter one or more international markets (host countries) (Ambler et al., 1999; Dow and Larimo, 2009). Within this domain, the psychic (i.e., cultural, language, institutional) distances between home and host countries has been identified as one of the main determinants of international market entry mode choice (Dow and Larimo, 2009). However, less attention has been given to market entry choice in the context of "region-within-country", where two specific regions (i.e., economic zone, provinces) within a specific country have substantial psychic distance, and/or economic and political differences (Ambler et al., 1999; Ebrahimi, 2000). In this context, trade between regions (i.e., economic zone, provinces) within a country can be seen similar to trade between countries (Ambler et al., 1999).

Second, the current research has branched out into two major paths with regard to international market entry mode. The first path focuses on the application of individual theories to explain market entry mode choices including transaction cost theory, institutional theory, and the resource-based view of the firm (RBV) (Malhotra et al., 2002). However, some have argued that any single theory is incomplete in explaining the antecedents of international market entry mode choice (see Goodnow, 1985). The second path involves the application of eclectic theories to explain market entry mode choices that incorporate multiple theories into a unified framework (Dunning, 1980; Malhotra et al., 2002). Within this domain, the integration of institutional theory and RBV has increasingly received attention, particularly in the international marketing literature (see Ekeledo and Sivakumar, 2004; Malhotra et al., 2002; Meyer et al., 2009). Brouthers and Hennart (2007) state that a combination of RBV and institutional theory has the capacity to help advance our knowledge on entry mode research. Meyer et al. (2009, p. 76) advocate that "the strong exploratory and predictive power of institutions is further enhanced when the institution-based view is integrated with the resource-based view", especially in emerging economies.

In response to the call for more research on the integration of institutional theory and RBV (e.g., Malhotra et al., 2002; Meyer

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et al., 2009; Wright et al., 2005; Yamakawa et al., 2008), we attempt to improve knowledge about entry mode choice from a marketing perspective in two ways. First, as international market entry modes are a means of linking a firm's product(s) to international market(s), entry mode choice depends on not only the environmental characteristics of the country, but it also depends on the characteristics of a firm and its products (Kwon and Konopa, 1993). In this sense, this study contends that institutional theory and RBV complement each other. In a practical sense a major task for managers is to achieve congruence between the firm and its environment on strategic decisions such as market entry mode choice (resource–strategy–environment duality). As such, the two theories cannot be isolated in explaining entry mode choices, as a firm competes well in a setting in which there is a fit between its resources and external opportunities (Conner, 1991; Ekeledo and Sivakumar, 2004).

Second, to date little empirical work has been done on examining the relationship between the two theories in explaining entry mode choices of firms, particularly in the contexts of inter-province business where significant psychic differences between regions may exist. Our study aims to investigate the relationships between resource-based influences, environment-based influences and entry mode strategy in a region-within-country context. The focus here is on the China–Hong Kong context. In particular, "from an economic and even sub-cultural perspective, Hong Kong and Mainland China are separate territories significantly foreign to each other" (Child et al., 2002). Further, Hong Kong has been politically reunited with China and this integration of a free-market capitalistic system with a socialist–communist system is seen as the super paradox (Chan et al., 2006). Particularly, the "one country, two systems" ensures that Hong Kong and China remain distinct business environments in terms of legal and regulatory systems, resource availability, infrastructure and market efficiencies (Ebrahimi, 2000). These factors make the China–Hong Kong context a suitable context to represent our view of the region-within-country issue to explore the resource–strategy–environment duality.

By focusing on a specific region-within-country context we attempt to address the shortcomings in previous eclectic models that exclude potential impacts of both home and host environmental factors that are difficult to control as firms in these studies may enter different countries (Ekeledo and Sivakumar, 2004). We place our emphasis on a single home market and a single host market common to all firms, allowing the effect of institutional theory and RBV on entry mode to be controlled and studied more clearly.

2. Literature review and hypotheses

Trade between regions within some countries can be considered similar to international trade. For instance, China is about three times larger than the European Union in terms of territory and population. In many respects market entry into other regions within China has similar characteristics to market entry from a European country to other counties in Europe (Ambler et al., 1999). This can be seen within the China–Hong Kong context, which is considered as "one country, two systems" (Child et al., 2002; Ebrahimi, 2000).

Hong Kong has been politically reunited with China since 1997. This integration of a free-market capitalistic system with a socialist system is seen as the super paradox (Chan et al., 2006). Hong Kong is separated from Mainland by physical distance, and has substantial psychic distance (i.e., oral language, cultural history), and/or economic and political contexts (see Ambler et al., 1999; Ebrahimi, 2000). Hong Kong and China remain distinct business environments in terms of legal and regulatory systems, resource availability, infrastructure and market efficiencies (Ebrahimi, 2000).

Based on factors such as psychic, economic, and political differences, we reason that trade between China–Hong Kong can be seen as similar to trade between countries (i.e., UK and Germany) (see Ambler et al., 1999; Dow and Larimo, 2009). More to this point, China is an important export market for Hong Kong firms (HKYB, 2005), and Hong Kong is one of the largest single sources of external investment in Mainland China (accounting about 42% of the national total, with a cumulative value of US $290 billion). These facts combined with China's increasing expansion, growth, and focus of business attention indicate that the importance of selecting the most appropriate mode of entry is becoming an important concern for many Hong Kong firms.

Surprisingly, little attention has been given to issues surrounding the nexus between region and country in general and Hong Kong and Mainland China in particular in relation to market entry. The focus here is on Hong Kong as a single home market and China as a single host market. We develop our theory using an eclectic model comprising the integration of RBV and institutional theory to explain differences between various entry modes choices, in the China–Hong Kong context.

2.1. Integration between RBV and institutional theory

It has been asserted that the best market entry mode strategy is one that aligns the entrants' strengths and weaknesses with the environment characteristics of both home and host markets, as well as firm's characteristics (Brown et al., 2003; Canabal and White, 2008; Morschett et al., 2010). In particular, premised on the pursuit of environment–strategy duality, institutional theory suggests that host market characteristics and home market characteristics can have a significant influence on decision makers' entry mode selection (Brouthers et al., 2002; Cavusgil and Zou, 1994; Kwon and Konopa, 1993). However, the institutional theory largely ignores idiosyncratic internal characteristics as key contributors to entry mode choice (Zou and Cavusgil, 1996). It does not explain the heterogeneity among firms' entry mode choice, even though they may be operating in the same line of business or same foreign market, and thus facing identical environment influences (Ekeledo and Sivakumar, 2004).

In this sense, adding RBV helps address the shortcomings of institutional theory (Ekeledo and Sivakumar, 2004; Meyer et al., 2009). RBV suggests that firms adopt entry mode strategies that are or can be supported by their resources (Ekeledo and Sivakumar, 2004). Particularly, a firm's internal characteristics (i.e., firm characteristics, product characteristics, and firm size) are fundamental drivers of a firm's strategic behaviour (Zou and Cavusgil, 1996). To this end, we propose that an eclectic model comprising the integration of RBV and institutional theory may address the shortcomings of each theory and might provide better explanation for differences between various entry modes choices (Ekeledo and Sivakumar, 2004; Malhotra et al., 2002; Meyer et al., 2009), especially in relation to region-within-country entry model choices.

2.2. Market entry mode strategy

The mode of entry is a fundamental decision a firm makes when it enters a new market because the choice of entry will influence the entire firm's strategies on that market (Brown et al., 2003; Johnson and Tellis, 2008). The extant literature categorizes market entry mode strategies into two proto-typical types namely non-equity modes (i.e., exporting, licensing/contractual agreement and R&D contracts, franchising, strategic alliance) and equity modes (i.e., joint venture and wholly owned subsidiary) (Root, 1994). Both types of entry modes are dramatically different in terms of degree of resource availability and control (Agarwal and Ramaswami, 1992; Hill et al., 1990; Johnson and Tellis, 2008). Resource