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Foreign market entry mode of service firms: The case of U.S. MBA programs

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ABSTRACT

While international expansion has become an important strategic imperative on the part of knowledge intensive service firms such as U.S. business schools, little empirical support is available on how these business schools enter foreign markets. If U.S. based business education programs are expected to prosper in light of the potential onslaught of international competition, expansion to overseas markets will be one of the most sought after options available. A poor choice in market entry strategy, or the lack of international market entry, can result in a negative impact on the educational institution. This research focuses on developing, measuring, and empirically testing a framework of key factors influencing international market entry mode choice of U.S. business schools by using primary data from faculty and administrators of U.S. Master of Business Administration (MBA) schools.

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1. Introduction

Globalization, rising affluence in developing and transitional economies, improved infrastructure, and advancements in communication and information technologies have increased the opportunities for marketing services beyond borders (Ekeledo & Sivakamur, 1998; Javalgi & White, 2002). On a comparative basis, the service sector has become the most dynamic part of the global

economy (Javalgi & White, 2002). Among services, the so-called knowledge-based sectors have been growing the fastest in developed economies, experiencing an average annual growth of 10–12% over the past several years (Styles, Patterson, & La, 2005). Knowledge-based services include management consulting, engineering, education, and information technology (Lovelock & Gummesson, 2004; Styles et al., 2005). Apart from general characteristics of services (e.g., intangibility and inseparability), knowledge-based services possess additional characteristics such as high customization, high uncertainty and resulting high risk.

Within knowledge-based services, international education has taken on major economic importance and policy emphasis (Brown & Duguid, 2000). Education markets thrive in the developing world and through billion-dollar tutoring in Asia (Coulson, 2006). For example, at many U.S. universities, tutoring in quantitative fields is increasingly

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obtained via computer from abroad, rather than from the traditional graduate students in residence (Homework Tutoring, 2007). Beamish and Calof (1989) documented the significance of an internationally oriented education system for the future economic resilience of a nation. UNESCO reports that “better education contributes to higher lifetime earnings and more robust national economic growth.” (EFA, 2004).

Many universities and colleges are seeking opportunities to offer their programs beyond domestic borders. Given the globalization of the world economy, business education appears to be particularly in demand. Universities are also seeking to find answers to the challenge of continued growth in the future, and attempt to position themselves to be attractive to students and faculty from around the world.

Despite the importance of the service sector in both domestic and world markets, the existing empirical literature about market entry strategies of knowledge intensive service firms such as educational services is scarce (Lovelock & Gummesson, 2004). The reasons for a lack of development in the existing literature most likely relates to the complexities of the educational industry (e.g., the mode of delivery, service quality) (Scherer, Javalgi, Bryant, & Tukul, 2005), and the customary reluctance of experts on external issues to look at these same issues within their own professional internal environment.

The focus of this research is two-fold. First, we aim to improve our understanding of the foreign market entry mode decisions by knowledge intensive service firms such as U.S. business schools. Second, we attempt to employ a popular international business theory, Dunning’s eclectic paradigm (1988), and test it in the context of knowledge-based service firms (U.S. business schools). Within business schools, we focus exclusively on Master of Business Administration (MBA) programs. We believe that simultaneous investigation of undergraduate and PhD programs would provide confounding elements for our analysis (e.g., links to other undergraduate fields and program size). MBA programs, however, tend to be stand alone activities which can be transferred easily and are in higher demand. For parsimony, we will limit our analysis to mode four of the World Trade Organization (WTO) – i.e. the mobility of an institution through a commercial presence abroad (Item 4 in Table 1). Within mode four,

we will consider different forms of establishments, ranging from licensing and franchising to joint ventures and wholly owned investments.

This study makes an important contribution to the international service marketing literature in that it identifies the key factors that bear on the mode of entry decisions. We believe it is one of the few articles that research market entry strategies used by U.S. business schools offering an MBA across the borders. The results of this study will help such schools to develop a comprehensive product/service market plan that includes investigating and choosing a foreign market entry mode.

The organization of this research is presented in four sections. The first section covers the study background. The second section presents the literature review related foreign market entry mode of service firms. The third discusses development of hypotheses. The fourth section focuses on the findings, followed by discussion and conclusions.

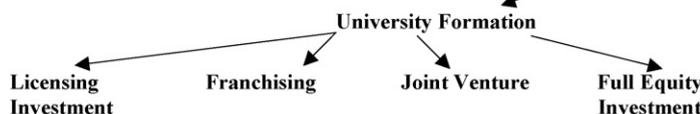
2. Study background

Traditionally, international education has consisted of sending students from their home nation to another country. This approach allows local interaction between students in a new social setting, and has been heralded as “increasing international cooperation, enhancing national security and improving economic competitiveness” (Powell, 2004). Sending students abroad or hosting international students is only one of several possible approaches to the internationalization of higher education. In a knowledge-based economy, it would seem urgent that stakeholders investigate different alternatives to going international. Universities have not taken on a service sector leadership role in their own internationalization. Czinkota (2006) notes that while universities have internationalized their teaching content their internal vision and operational competence have not kept pace with globalization and the transformation of society.

Student mobility is the education sector’s equivalent of what trade negotiators refer to as “consumption abroad.” All together, there are four modes of internationalization. A strategic type of cross-border activity of service industries identified by the World Trade Organization consists of delivery abroad, where a service is created and offered in

Table 1
The WTO framework for services trade

	WTO Terminology	Higher Education Mobility Component	Example of Implementation
1.	Consumption Abroad	Student Mobility	Study Abroad
2.	Delivery Abroad	Faculty Mobility	Fulbright Scholars
3.	Cross-Border Supply	Program Mobility	Distance Learning
4.	Commercial Presence	Institutional Mobility	University Formation



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