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The role of networking and commitment in foreign market entry process: Multinational corporations in the Chinese automobile industry

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ABSTRACT

This study addresses the role of business networking and commitment to local market when MNCs enter an emerging market. We investigate the reasons for variations in the speed of MNCs' foreign market entry. Particularly, we examine whether MNCs' networking with the key local actors facilitates MNCs' entry and whether learning and commitment in the context of networking affects the speed of MNCs' entry process in the Chinese automobile market. The study is based on the experiences of three MNCs, a U.S.-based firm, a European firm, and a Korean firm. Data is collected through in-depth interviews and through secondary sources related to the entry process of these cases. The cases illustrate that speed of foreign market entry is significantly influenced by business networking between MNCs and the key business and socio-political actors, since different types of business networking determine the level of learning and commitment. Our cases also show that the effects of business networking generated during the initial foreign market entry by the MNC may be different than those during sequential entries.

1. Introduction

In the international business (IB) literature, much research has focused on networking in developed economies during the process of foreign market entry (Elg, Ghauri, & Tarnovskaya, 2008; Giroud & Scott-Kennel, 2009; Kontinen & Ojala, in press). In recent years, there has been a growing interest among researchers about the impact of networking in emerging markets (Luo & Tung, 2007; Santos & Ruffin, 2010). Emerging markets are believed to posses environmental characteristics different from those in advanced economies. For example, the market institutions are not well developed and the business–government relationship is often excessively inter-twined (Khanna, Bigley, D'Aunno, & Ring, 2005; Khanna & Palepu, 1997). It is also considered that multinationals from emerging markets are better equipped to handle the networking and entry processes in other emerging markets (Khanna & Palepu, 1997).

Business networking is defined as the formation of inter-firm relationships with key business actors (Anderson, Håkansson, & Johanson, 1994). Since the internationalisation process model was first introduced by Johanson and Vahlne (1977), there has been a large body of literature on the foreign market entry and business networking of multinational corporations (MNCs). Most studies have demonstrated that resource commitment, learning, and trust in the foreign markets

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are facilitated by the development of relationships with local business actors, helping MNCs land successfully in the host markets (Lopez-Duarte & Vidal-Suarez, 2010; Zaheer, 1995). Nevertheless, it still remains unclear how networking with local actors influences the speed of foreign market entry, if the speed of foreign market entry is regarded as the duration from the initial contact to the start of business operations in the host market.

Previous studies (Ghauri et al., 2008; Hadjikhani, Lee, & Ghauri, 2008) have argued that the socio-political context may be one of the answers that explain the variations in the speed of MNCs' entry processes into foreign markets. While the entry success of MNCs may be reasonably thought to be dependent upon the business itself and other contexts (Lee & Hadjikhani, 2005), the existing studies in business networking and relationships have rarely paid attention to the MNCs' speed of foreign market entry under specific socio-political environments, such as the case with the Chinese automobile industry where the local partners are often the host government. Therefore, this paper addresses a fundamental question in the area of IB research: why are there variations in the speed of MNCs' market entry into emerging markets and whether it is influenced by networking activities/capabilities of multinationals or not?

The characteristics of the relationships between MNCs and their partners, suppliers, and socio-political organisations tend to determine MNCs' relative market position (Ghauri & Holstius, 1996; Welch & Wilkinson, 2004). At the same time, since those relationships have both a static and dynamic nature, they evolve over time. In this process, the sustenance of good networking in an international market eventually hinges upon elements such as learning and resource commitments (Hadjikhani et al., 2008; Isobe, Makino, & Montgomery, 2000). However, MNCs' learning and commitment, interlocked with their self-interests, sometimes may become misunderstood by a host government or raise tension with headquarters.

In this paper, we propose that MNCs' networking with the key local actors facilitates foreign market entry and that learning and commitment in the context of networking affects foreign market entry. This research contributes to further understanding the link between the speed of internationalisation processes and networking in two significant ways. First, the research presented here serves as a fair answer to the question that why some MNCs are able to enter foreign markets more quickly and less problematically. Second, it presents a good reference to suggest whether MNCs coming from similar environmental and institutional settings (emerging market firms entering other emerging markets) are in a better position to achieve this speed.

2. Theoretical framework and previous research

2.1. Internationalisation, learning, and commitment

Among several perspectives which approach internationalisation processes, the work by Johanson and Vahlne (1977) perhaps was the first to mention the mechanism of networking behavior of MNCs. The essence of this model is that firms tend to become globalised gradually and that the increase in international market experience by MNCs drives them to augment investments by committing more resources into both the hosting markets and subsequent market entries.

The model assumes a gradual learning in internationalisation as well as a unilateral learning process starting from the MNCs' entry into the host market. However, the recent findings suggest that internationalisation may be based on rapid and two-way (interactive) learning (Hadjikhani et al., 2008; Hedlund & Kverneland, 1985). In addition, turbulence in the market environment where the internationalising firms are based, as well as technological advancement, have both emerged as factors that may determine the decision and the performance of MNCs' internationalisation (Turnbull, 1987; Makhija, 1993).

Internationalisation may be viewed as a process in which MNCs expand their organisational network into another country. In this regard, foreign market entry is an initial step of expanding business networks (Coviello & Munro, 1997; McDougall, Shane, & Oviatt, 1994). During the process of foreign market entry, firms tend to act *within* their existing business network, so that characteristics of the existing network affect the new entries to the foreign market (Blomstermo and Sharma, 2003; Chen & Chen, 1998). The leaning and commitment shown by the MNCs affect the interaction between new entrants and the local business actors and produce different networking patterns layering on the existing network (Hadjikhani et al., 2008).

Learning and commitment do not only consist in a firm's idiosyncrasy in networking but also determine the nature of MNCs' business networking after entering the foreign market. Due to frequently less developed market institutions, the relationship with socio-political actors, particularly with those from the government, frequently plays a role in determining the level that MNCs can cope with institutional uncertainties (Lee & Hadjikhani, 2005). The networking with socio-political actors shapes the perception and attitude of a government in an emerging market towards the new MNC.

Networking significantly reduces agency costs that may incur during foreign market entry because it shows the goal and attitude of an entrant to a partner firm as well as to the host government (Aulakh, Kotabe, & Sahay, 1996). When firms aim to penetrate into a new market, they need to invest a large amount of resources into a variety of relationships. Learning, on the other hand, takes place in multiple areas; for example, locational learning helps entrants better understand importance of establishing a business base in the particular foreign market and reaping locational benefits offered by the country market. Thus, the existence of geographic learning leads to sequential entries in the same geographic area.

As commitment and learning by a firm increase, its inter-firm relationships become quality-oriented rather than cost-oriented (Sobrero & Roberts, 2001), long-term oriented (resource-building) rather than short-term oriented (resource-exchange), or exploration-oriented rather than exploitation-oriented. Learning enables an entrant to be aware of foreignness and to adapt to new business environments in order to fill in the gap between an entrant and the host country or partner.