Collaborative entry modes. Part 1

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Shlomo Y. Tarba, Michael R. Czinkota
and Demetris Vrontis

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Guest editorial

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An assessment of collaboration between multinational firms

In the past two decades, cross-border collaborative entry modes (alliances, joint ventures, and mergers and acquisitions) activity has increased significantly (Chiao et al., 2010; Czinkota et al., 2011; Czinkota et al., 2009; Whitelock, 2002; Whitelock and Jobber, 2004). Yet, the growth in cross-border collaborative entry modes activity, the volume of capital involved, and their popularity stand in sharp contrast to their high rate of failure (Gomes et al., 2011; Weber et al., 2011).

One of the central questions in international marketing strategy is whether MNCs and SMEs coming from the particular country pursue a distinct paradigm of best marketing practices or tend to manage their marketing capabilities in ways that are distinct from those of their host country (Burgel and Murray, 1999; Czinkota, 1997; Gabrielsson et al., 2012; Vrontis, 2003; Vrontis et al., 2009) as well as the timing of the foreign market entry (Murray et al., 2012).

Within a complex organizational context, collaborative market entry modes (alliances, joint ventures, and M&As) pose many challenges to both executives and researchers because handling the interface between the two or more different organizations is a multi-faceted and multi-stage process (Gomes et al., 2013). Thus executives and researchers alike face a daunting challenge in attempting to develop and accumulate specific knowledge and capabilities about the collaborative partnership process management in general and marketing practices during it in particular.

The goal of this special issue was to stimulate scholars to focus on marketing practices at individual, group, and firm level in collaborative entry modes such as mergers and acquisitions, joint ventures, strategic alliances, licensing, franchising, equity participation, etc.

Therefore, a major goal of this special issue has been to encourage research on how underlying concepts and methodologies in international business, strategic management, and other related areas can enhance our understanding of the marketing practices in collaborative partnerships.

In sum, this special issue brings together an eclectic range of work that offers new insights for scholars on collaborative entry modes, and we hope it will inspire scholars to engage in cross-disciplinary, multi-level, multi-stage, and multi-temporal research of this important topic in the international marketing realm.

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**Further reading**

Information technology and marketing performance within international market-entry alliances

A review and an integrated conceptual framework

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Abstract

Purpose – The purpose of this paper is to engage in a comprehensive review of the research on information technology (IT)-mediated international market-entry alliances.

Design/methodology/approach – This paper provides a theory-informed conceptual framework of IT-enabled cross-border interfirm relationships and performance outcomes. It integrates perspectives of resource-based view (RBV) and transaction cost economics (TCE) to argue that the establishment of interfirm IT capabilities enhances the marketing performance of the foreign partner in the host location by improving interfirm relationship governance. Furthermore, IT-related risks and contextual restrictions are identified as important moderators.

Findings – Conceptualisations of IT capabilities, IT-enhanced interfirm governance, and IT-led marketing performance improvement are suggested. Drawing on RBV and TCE, IT resources, related human resources, and IT integration between partner firms in combination enhance the ability of firms to manage the relationship more effectively through shared control, interfirm coordination, cross-firm formalisation, and hybrid centralisation. These benefits then bring about better upstream and downstream marketing performance in the host location. Additionally, IT capabilities help to mitigate possible contextual limitations and risks.

Research limitations/implications – The paper offers a number of theory- and literature-informed research propositions which can be empirically tested in future studies.

Practical implications – Top managers of firms currently in or planning to enter international alliances for market entry should carefully consider effective development of interfirm IT capabilities in terms of readiness of hardware and software, human resources, and organisational resources.

Originality/value – The paper provides an integrated framework and propositions which contribute to limited understanding and appreciation of IT value in international market-entry alliances.

Keywords Information technology, Entry modes, Cross-border alliance, Marketing performance

Paper type Conceptual paper

1. Introduction

During the past two decades, the international business sphere has witnessed dramatically increasing growth in cross-border collaborations in the forms of strategic alliances, joint ventures, and merger and acquisitions (Ahammad et al., 2012; Ahammad, Tarba, Liu and...
Glaister, 2016; Ahammad, Tarba, Liu, Glaister and Cooper, 2016; Basuil and Datta, 2015; Chiao et al., 2010; Czinkota et al., 2009; Di Guardo et al., 2016; Dutta et al., 2016; Gaffney et al., 2016; Rao-Nicholson et al., 2016; Sinkovics et al., 2015; Whitelock, 2002; Zheng et al., 2016). Marketing practices and performance in this context have received growing recognition as a key measure of overall effectiveness of the collaboration (Ahammad, Tarba, Liu and Glaister, 2016; Burgel and Murray, 2000; Dan and Zondag, 2016; Eng and Ozdemir, 2014; Huang and Brass, 2016; Sinkovics et al., 2015; Vrontis et al., 2009). Positive marketing performance in the host location is considered crucial for foreign investor firms due to the widely recognised contrast between the amount of capital involved and the high rate of failure (Gomes et al., 2011; Weber et al., 2011). In spite of the risks involved, cross-border collaboration continues to grow in popularity. A major cause of this trend is globalisation. Increasing international competition requires firms to seek multiple channels for market growth as heavy reliance on domestic markets could no longer be sustainable (Bartlett and Ghoshal, 2002; Campos et al., 2016; Yu, 2011; Murmann et al., 2015). Studies on collaborative entry modes have long focussed on the aspect of performance (Bleeke and Ernst, 1990; Larimo et al., 2016; Merchant, 2014; Pak and Park, 2004; Perkins et al., 2014), however, literature on how it can be successful in the international context whereby culture difference is prominent remains fragmented (Almor et al., 2014; Gomes et al., 2016; Junni et al., 2015; Niesten and Jolink, 2015). Both strategic alliances and joint ventures across borders have been managerially challenging for firms (Aklamanu et al., 2016; Junni et al., 2015). The investment capital and time devoted to any alliance are considerable; hence, success becomes an inevitable objective. To shed light on ways that effective alliances can be achieved, our paper introduces the role of information technology (IT). In spite of IT being a necessity for today’s business operations (Mabey and Zhao, 2016), so far research on the role of IT in collaborative entry modes has been limited and should be given much more recognition. Limited IT research has focussed on the facilitation of cross-border alliances. Specifically, it is noted that IT has contributed to the establishment and improvement of international market-entry alliances through enhancing communication, information exchange, and knowledge transfer between partner firms (Tafti et al., 2013). For example, Tesco successfully tapped into Thailand by forming joint venture supermarkets with Thai company Lotus which has extensive and strong upstream and downstream network relationships locally, making marketing practices much less difficult for Tesco through IT alignment with Lotus in local supply and distribution operations (Shannon, 2014; Tafti et al., 2013).

Despite the prominent use of IT, both researchers and practitioners have had deep-rooted doubts about the promising contribution of IT on company performance. Specifically, as Jean et al. (2008) and Dwivedi et al. (2015) correctly identified, there has long existed a debate on the impact of IT performance. So far empirical evidence has shown contradictory results which suggest that IT does not necessarily improve performance or enhance business value. Instead, the “IT productivity paradox” exists (Brown, 2015; Brynjolfsson, 1993; Brynjolfsson and Hitt, 1996; Hajli et al., 2015). Some others viewed IT as a commodity which had little distinct value in terms of creating sustainable advantages for firms, instead it is easily imitated by competitors (Carr, 2002; Jean et al., 2008). In an attempt to contribute to the theoretical advancement of the issue of the value of IT in the context of cross-border alliances, which remains under-explored (Dewett and Jones, 2001; Lioukas et al., 2016), the relationship between IT, interfirm relationship, and marketing performance needs to be established. This also responds to a recent call from Chang et al. (2015) in terms of exploring the driving force of IT in international collaborations. Hence, this paper aims to address the important question of whether and how IT contributes to interfirm marketing performance through international market-entry alliance.

Against this background, our main objective is to develop a theory-informed integrated conceptual framework to comprehend the impact of IT on interfirm relationship and
therefore marketing performance based on cross-border alliances and IT research. A link between resource-based view (RBV) and transaction cost economics (TCE) is established and underpins the framework. An interaction between these two theoretical perspective helps to form the central proposition that IT resources lead to enhanced marketing performance through improving interfirm governance. Additionally, we develop a series of research propositions. The proposed framework and propositions leads to further empirical testing of international market-entry alliances. We conclude the paper by discussing theoretical and practical implications.

2. Overview of IT in international market-entry alliance and marketing performance literature

IT and collaborative entry modes are two areas of research which rarely intersect. Specifically, collaborative entry mode is a topic long rooted in international business and strategy research. On the other hand, research focussing on the role and effects of IT has resided mainly in IS literature and to some extent, management literature (Jean et al., 2008; Lioukas et al., 2016; Tafti et al., 2013). While there is a common consensus that we have been living in an “information age” (Tapscott and Caston, 1993; Yu, 2011) largely led by advancement in IT, so far research linking IT and collaborative entry modes is rather limited and lagging behind time (Lioukas et al., 2016; Tafti et al., 2013). A shortage of scholarly interest indicates that there is an under-appreciation of how critical IT is in today’s business environment.

Specifically, our review shows that topics relating to international collaborative market entry modes have been extensively studied by scholars from international business and strategy fields over a number of decades. International collaborative entry modes are traditionally known as forms of business whereby a foreign firm intends to penetrate a host market by partnering with its indigenous companies (Beamish and Lupton, 2009). Being part of international trade and doing business beyond borders, international joint ventures and alliances are not the only means of penetrating global markets; however these methods of collaborative market entry are often preferred over franchising, contracting, or licensing, etc. Specifically, international alliances are widely used as the form of market entry in countries with high uncertainty or low experiential knowledge, for example, less developed economies. A study by Brouthers (2002) shows alliances in this context have outperformed other types of foreign investment methods (such as wholly owned subsidiaries) due to locational advantages provided by domestic partners. Similarly, Fang et al. (2015) discuss the benefits of strategic alliance in the global pharmaceutical industry in terms of uncertainty reduction and new product development synergy. In terms of marketing consideration, Fang and Zou (2009) stress the importance of marketing dynamic capabilities in international joint ventures. They claimed that the empirical literature on strategy has documented the impact of dynamic capabilities of firms on their performance, yet literature on the operationalization and conceptualization of marketing related dynamic capabilities in the context of international alliances has been rather limited. Their data from top managers in China indicates that marketing dynamic capabilities have a significant impact on the host market performance and competitive advantage of international joint ventures.

Whilst previous studies presented diverse focusses (e.g. motivations, choices of modes, country selection, and performance consequences) and approaches (e.g. TCE, RBV, knowledge-based view, and agency theory), a central rationale many of them share is the effectiveness of alliances in achieving performance levels. For instance, Ming-Chang et al.’s (2015) study of 152 cross-border joint ventures revealed that perceived value gap and information asymmetry are two mediating factors which directly affect interfirm performance. Pak and Park (2004) also used an empirical approach in a Korean context to contend that alliances benefit economies of scale and help share risks. Furthermore, based
on a social contract perspective, Wallenburg and Schäffler (2014) found that international alliance partnerships enhance market performance through relationship building. Hadjimarcou et al. (2015) also noted international alliances are more likely to succeed in terms of overseas market performance.

On the other hand, extensive evidence suggests that whilst there are many organisational performance benefits associated with international collaborative entry modes, especially for foreign investor firms, there is a high risk of failure deriving from a number of internal and external causes. Ineffective interfirm relationships have been argued as one of the main reasons collaborations fail (Venkatesh et al., 2000). Sivadas and Dwyer (2000) estimated that 70 per cent of alliances fail for that reason. Extant research has attempted to provide methods and tools for relational improvement. For instance, Venkatesh et al. (2000) proposed joint product development and branding between partners to create a positive collaborative effort. Inkpen and Currall (1998) asserted that building interfirm trust is important in contributing to joint venture performance. Similarly, Blodgett (1992) took the view that communication is an enhancer of international joint ventures.

In comparison to these propositions, references to IT usefulness have been rather scattered (Lioukas et al., 2016; Tafti et al., 2013). However, in comparison to extensive discussions of many of the other organisational tools in improving the performance of international market-entry collaborations by way of enhancing interfirm relationships, so far IT has either been only briefly mentioned in previous literature or closely examined in very few studies (Table I).

Therefore, it shows research into the role of IT and its impact in the context of international market-entry collaboration has been very limited and static to date, particularly in terms of empirical evidence. Furthermore, a more integrated framework to comprehend different theoretical perspective is still lacking in previous literature.

We propose that in order to enhance our understanding of the topic, some major organisational factors should be identified and studied to resolve potential conceptual ambiguity about the role and effect of IT and the lack of consensus among international business, marketing, and IS scholars. Specifically, one major factor to consider is the IT dimension. Recent research from IS and marketing literature, drawing on RBV, has discussed different IT resources and capabilities and their performance impact in the context of interfirm supply chain relationships. For instance, Kim et al. (2006) conceptualised applied technological innovation, administrative innovation, and interfirm systems integration as three IT resources. Similarly, Lu and Ramamurthy (2011) defined IT capability (three dimensions: IT infrastructure capability, IT business spanning capability, and IT proactive stance) as an enabler of firm agility. Hence, one general conclusion we can draw is that IT capability has been a dominant dimension in most research.

A second major factor we consider is the debate on IT-mediated interfirm relationship and performance. Brown (2015) noted that so far research has centred around the argument about the direct and indirect link between IT and performance. A more recent view in measuring IT performance, which has received increasing support and recognition, is a process-oriented approach (Jean et al., 2008; Pavlou and Saway, 2006; Ray et al., 2005).

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<th>Author</th>
<th>Research</th>
<th>Collaboration mode</th>
<th>Empirical/conceptual</th>
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<tr>
<td>Lioukas et al. (2016)</td>
<td>IT has higher value in non-equity governance structure</td>
<td>Strategic alliances</td>
<td>Empirical</td>
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<tr>
<td>Tafti et al. (2013)</td>
<td>Different IT capabilities entail different types of collaboration</td>
<td>Strategic alliances and joint venture</td>
<td>Empirical</td>
</tr>
<tr>
<td>Gallivan and Depledge (2003)</td>
<td>IT enhances control and trust</td>
<td>Interfirm partnerships</td>
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The view asserts that IT enhances performance through improving specific organisational processes. Much of the research adopting this approach has drawn upon RBV in IT value research. It is argued that IT alone does not directly derive performance benefits, but rather that benefits are generated when IT interacts with higher order organisational processes (Jean et al., 2008). For instance, Kim et al. (2006) found IT-mediated coordination and responsiveness lead to positive interfirm performance. Similarly, works of Sanders (2008) and Lioukas et al. (2016) showed that IT contributes to interfirm cooperation. Building on TCE, Gallivan and Depledge (2003) identified that IT enhances interfirm control and trust.

3. An integrated conceptual framework of IT on marketing performance in international market-entry alliances

Jean et al. (2008) made an important assertion about how IT contributes to firm performance. Although it focussed on supply chain relationship, their study explicaded and reconfirmed IT business value in an interfirm context. Specifically, discussion of applicability of TCE and RBV to IT value research was provided showing a transition of IS research from transaction cost concerned to resource-based value creation. In particular, their argument about the inappropriate outcomes about IT and value creation in previous research echoes our thoughts and direction in this paper. Research exploring this area is not only limited but ambiguous in conceptualising different IT resource attributes to firm performance. For instance, a recent management information system study by Bhatt and Grover (2005) defined IT capabilities into IT infrastructure, IT business experience, relationship infrastructure, and organisational learning which enable the creation of competitive advantages for firms; while Bharadwaj (2000) separated IT capabilities into IT infrastructure, human IT resources, and IT-enabled intangible resources. Clearly, ambiguities and confusion in IT value research and theoretical applications remain. We agree with Jean et al. (2008) that conceptualisation of IT resources and capabilities are still inconclusive, leading to development of different terminologies. Furthermore, knowledge gaps remain on how IT resources and capabilities interact with organisational processes to create value and enhance performance. This is particularly emphasised by the long unsolved IT productivity paradox problem (Brynjolfsson, 1993; Brynjolfsson and Hitt, 1996; Hwang et al., 2015).

In this paper, we provide our own definitions of IT as a critical resource for firms in the context of international alliances. At the outset, IT resources can be seen as organisational skills and capabilities related to IT, which enable firms to leverage their existing non-IT related resources for better performance (Chae et al., 2014). Building upon RBV, IT resources in comparison to IT assets, can have a greater impact on interfirm processes which ultimately lead to mutual performance outcomes in a more sustainable way. This is because IT resources and capabilities are idiosyncratic to the collaborating firms and therefore extremely difficult to imitate (Lioukas et al., 2016). By integrating RBV with the TCE perspective in the context of international alliances, we argue that interfirm transaction costs associated with opportunistic behaviour as a result of bounded rationality can be counteracted by interfirm IT resources to reduce risks and associated costs.

Consequently, we integrate different streams of literature and theories of RBV and TCE to develop a conceptual framework in this paper. Specifically for the framework, we apply the two interactive theoretical perspectives: RBV denotes IT value creation in the context of collaborative market-entry partnerships while TCE explains interfirm processes which are affected by IT. We argue that IT value should not be measured directly against interfirm performance, as it creates further confusion to the “paradox”. Instead, we conceptualise IT resources to contribute to interfirm performance through interacting with important interfirm alliance factors. This specific context has been given limited attention in previous research (Lioukas et al., 2016). In addition, building on international business literature, we specifically focus on marketing practices associated with market-seeking as the main
Developed using RBV and complemented by TCE, our proposed conceptual framework (Figure 1) suggests that when interfirm IT capabilities, which are dynamic and critical, are present between foreign and local partner firms, specific interfirm relational aspects can be enhanced. Also, we argue that these relational aspects are important interfirm governance mechanisms which IT can facilitate (Chatterjee et al., 2006; Jean et al., 2008). Therefore, it enables the building of a more efficient interfirm relationship and therefore improved marketing performance. Further, IT-enabled governance can help to counteract associated investment risks and contextual limitations which are potentially negative. Additionally, we adapt the contingency theory perspective (Donaldson, 2001; Luo and Bu, 2016) to argue that IT and interfirm performance are likely to be moderated by process-based factors.

3.1 Organisational IT capabilities dimensions

IT capabilities refer to the ability of a firm to mobilise and deploy IT through appropriate IT management, which in combination or co-presence with other resources and capabilities serves as a source of sustainable competitive advantages (Bharadwaj, 2000). This definition implies that, rather than IT resources per se, human IT skills and complementarity between IT and human resources are the necessary components which in combination create firm-wide IT capabilities. Despite extensive studies on IT-related topics, many authors who discussed IT capabilities failed to appropriately address their differences (Wade and Hulland, 2004). This in turn becomes misleading and causes confusion in literature (Chae et al., 2014; Sabherwal and Jeyaraj, 2015; Wade and Hulland, 2004). In this paper, we follow the explanation of Ross et al. (1996) who divided IT capabilities into three categories: human assets (technical skills, business understanding, and problem-solving orientation), technical assets (physical IT assets, technical platforms, databases, architectures, and standards), and integration process (with other divisions internally and partner firms externally). In this paper, we argue that IT resources, IT-related human resources, and IT integration are three distinct and intertwined sets of capabilities which require specific and separate attention.

3.1.1 IT resources. The discussion of information in recent management and marketing literature has specifically suggested the importance of IT as an information and knowledge management tool (Orlikowski and Gash, 1992; Wade and Hulland, 2004). Organisational IT assets are generally defined as the combination of hardware and software a firm possesses.
(Moore and Benbasat, 1991). Whilst some researchers argued that IT is the driving force for change, some others believed it plays a more supportive role in current business practices. Despite much debate about the subject, it is generally agreed that IT is a fundamental element in the changed natured of work processes, in organisational restructuring, and in societal transformation (Avgerou and Walsham, 2001). Hence, considering the noted contribution of IT in value creation for firms, we adopt the RBV (Barney, 1991; Penrose, 1959) to suggest that IT resources are critical assets in the context of interfirm alliances when entering a foreign market. Our view of IT resources is in line with recent literature. Specifically, prior to the mid-1990s, works of IT lacked an appropriate theoretical base. Melville et al. (2004) found that researchers employed a wide variety of different theoretical paradigms in examining the subject without appropriate justifications. For instance, theories or views of industrial organisation, sociology, or socio-politics were used Only since the mid-1990s, it has a more unified theoretical paradigm towards RBV started to emerge (Bharadwaj, 2000; Powell and Dent-Micallef, 1997; Shin, 2006; Wade and Hulland, 2004; Wu et al., 2006). In short, the view enables researchers to examine the value of IT resources in contributing to organisational performance.

3.1.2 IT-related human resources. While IT resources are crucial, they need to be operationalised in order to realise their value and since IT does not function by itself, human resources are our second IT capability consideration. A number of scholars emphasised the importance of having the right human IT skills (Bharadwaj, 2000; Powell and Dent-Micallef, 1997). Whilst some viewed it as purely technical IT skills (Feeny and Willcocks, 1998; Wade and Hulland, 2004), others considered it to denote both technical and managerial IT skills (Bharadwaj, 2000; Melville et al., 2004). The former refers to the know-how needed to build and maintain IT applications using the technology available (Bharadwaj, 2000; Capon and Glazer, 1987). For instance, it includes knowledge of programming languages, experience with operating systems, and understanding of communication protocols and products. On the other hand, managerial IT skills include the ability to understand and appreciate the business needs of other units, suppliers and customers, to work with IT users to develop appropriate applications, to coordinate IT activities efficiently, and to anticipate future IT needs (Capon and Glazer, 1987; Copeland and McKenney, 1988). These skills are likely to be difficult to transfer as they are developed over long periods of time and are causally ambiguous and socially complex and thus likely to serve as sources of sustainable competitive advantage (Mata et al., 1995). In the context of interfirm alliances, we argue for organisational resource complementarity (de Matías Batalla, 2014; Grimpe and Hussinger, 2014). It refers to effective alignment between IT and the human resources of partnering firms so to best leverage value.

3.1.3 IT integration. Although IT is seen as a useful organisational resource in supporting a firm’s value creation, it is also generally agreed in the literature that IT resources alone are not always distinctive enough to create sustainable competitive advantages (Clemons and Row, 1991; Wu et al., 2006). This is because, as RBV suggests, resources that can create sustainable competitive advantages need to meet the criteria of rarity, inimitability, immobility, and durability. Since readily available IT hardware and software have relatively low barriers to imitation and acquisition by other firms, IT-created advantages (if any) tend to diminish fairly, quickly (Clemons and Row, 1991). Even when some IT resources can be kept proprietary in the short term (Bain, 1956; Porter, 1980), eventually imitation is difficult to avoid, hence it is unlikely that IT resources alone can be a source of sustainable competitiveness.

Instead, as RBV suggests, firms can use a bundle of resources (Penrose, 1959; Barney, 1986) which enable them to operate and implement strategies and these resources can be either tangible and intangible, therefore the possession of IT hardware and the operation of it can be
both seen as part of an organisational resource portfolio (Wu et al., 2006). On this basis, not only should tangible IT be classed as resources, the operational process of IT should also be regarded as resources because only possession of IT cannot create value in any way unless it is utilised through processes (Chiborn, 1996; Shin, 2006). In the context of interfirm alliances, we argue that it is even more critical that IT integration is effectively achieved between partner firms in order to maximise opportunity for value creation from the new market.

Specifically, the topic of IT integration has been extensively studied (Bharadwaj, 2000; Feeny and Willcocks, 1998; Mata et al., 1995; Melville et al., 2004; Wade and Hulland, 2004), and despite the fact that these authors have taken slightly different emphases, their all research suggested one central idea: any IT integration activities should be concerned with creating a condition for which IT resources and human resources can be operationalised synergistically for maximum value creation. IT integration is generally concerned with three key factors, one of which is having the right technological infrastructure in place between collaborating firms. The infrastructure includes the technologies, sharable technical platforms, and databases. Bharadwaj (2000) found that when a non-integrated IT infrastructure exists which is dominated by system incompatibilities, firms’ operations are severely restricted. Hence, an integrated IT infrastructure which spans across collaborating firms and links key business processes together is crucial for effective interfirm alliances.

3.2 Firm performance outcomes

One area of IT and management literature that has provoked much debate over the past decades has been the performance effect of IT (Bharadwaj, 2000). This is caused by a lot of research producing very mixed results. For instance, a group of researchers found through empirical studies that possession and operationalisation of IT has direct and positive effects on firm performance (e.g. Banker and Kauffman, 1991; Clemons and Weber, 1990; Choi et al., 1990), on the other hand, Warner (1987) and Hunter (2003) found direct and negative effects. Another group noted no effect at all (e.g. Sager, 1988; Venkatraman and Zaheer, 1990), while some others noticed contingent effects of IT on performance (e.g. Bharadwaj, 2000; Carroll and Larkin, 1992; Powell and Dent-Micallef, 1997; Wu et al., 2006), and Hendricks et al. (2007) found mixed results depending on the type of technologies. This is despite the fact that well-established measures for performance (e.g. return on investment, stock returns, and productivity) were used. The contrast in the results has created confusion for both researchers and practitioners. Even though large investments have been made in IT, some firms achieve successful outcomes whilst others fall victim to the “productivity paradox” (Tippins and Sohi, 2003). The term “productivity paradox” has been well recognised in literature and refers to the difficulty in measuring IT investments against its performance (Brynjolfsson, 1993; Brynjolfsson and Hitt, 1996).

Arguably, one common flaw found in much of the previous studies is the ambition of researchers to measure a performance indicator in a single paper. In our paper, we specify our performance focus to marketing outcomes only to provide a more realistically measurable conceptualisation of IT-led performance. Moreover, marketing performance is particularly crucial in the context of interfirm collaboration when the purpose of the partnership is market entry (Cavusgil and Zou, 1994). In reference to Porter (1985) and his work on value chain activities, we break down marketing performance into two categories: upstream and downstream marketing activities.

3.2.1 Downstream marketing outcomes. Previous literature has long discussed the performance benefits of foreign firms forming interfirm alliances with firms which already have an established presence in the host market (Sarkar et al., 2001). One obvious benefit is the availability of downstream marketing channels including marketing and advertising, distribution, and customer services (Jean et al., 2008). Foreign firms new to a market are likely to experience “foreignness” in the areas of culture recognition, psychic distance, and
knowledge and experience shortage. Dealing with these barriers from within the firm requires time and capital investment (Claro and Claro, 2010). In a market of high competition intensity, such a strategic move is likely to create competitive disadvantages. Instead, international joint ventures or strategic alliances with locally-established firms is often viewed as a more efficient mode of entry (Fang et al., 2015; Sarkar et al., 2001), particularly when downstream marketing channels are complex and difficult to establish in more dynamic environments. Collaborating with carefully selected local firms who have established networks in place can help to significantly speed up market entry processes. More importantly, the absence of “foreignness” as a result of the alliance enables foreign partner firms to effectively market and advertise, distribute, and service the host market with contribution from the local partner (Jean et al., 2008).

3.2.2 Upstream marketing outcome. Upstream marketing is less discussed by scholars than downstream marketing (Charan, 2004, 2005; Ellis, 2010; Lew et al., 2013; Smith et al., 2015; Woletz et al., 2005), however, it is equally and if not more, important as a measure of marketing performance in the context of collaborative market entry. Upstream marketing activities are generally considered more strategic than downstream activities (Charan, 2004) which orient around market extension, customer segmentation, and product and process innovation. Whilst downstream activities are closely aligned with upstream marketing decisions, the former is more operational once decisions are made, and the latter is about planning and decision making for downstream activities (Charan, 2005; Ellis, 2010). In the context of collaborative market entry, foreign investors are likely to benefit from teaming up with local partners when developing marketing plans and making decisions because the local context and customer preferences can be more effectively considered as partner firms’ knowledge and experience is made use of in the process.

In our paper, we suggest that IT capabilities, in the context of interfirm alliance for market entry, can improve foreign firm performance by enhancing upstream and downstream marketing outcomes. This is because knowledge and information shared between foreign and local partners can help to inform more appropriate marketing decisions and more appropriate plans – this helps to improve upstream marketing performance. Conversely, effective timely information exchanges between foreign and local partners when carrying out downstream marketing activities can help both parties better adapt to market needs and changes quickly. These arguments are in line with works of Sambamurthy et al. (2003) who suggested the important role of IT in facilitating information exchanges and Mowery et al. (1996) who noted he importance of local knowledge to counteract “foreignness” in marketing. Thus:

$P1a$. The establishment of interfirm IT capabilities, including shared IT resources, related human resources, and cross-firm IT integration, is likely to improve foreign partner firm upstream performance by enhancing local knowledge and information exchanges for better informed decision making.

$P1b$. The establishment of interfirm IT capabilities, including shared IT resources, related human resources, and cross-firm IT integration, is likely to improve foreign partner firm downstream performance by enabling more localised marketing activities which better meet customer needs through effective information exchanges between local and foreign partners.

3.3 Governance mechanisms dimensions

3.3.1 Shared control. We draw upon the TCE perspective to discuss three governance mechanisms which have been extensively discussed in international business literature. First, control is generally a form of governance which is, according to Child (1973, p. 117), “essentially concerned with regulating the activities within an organisation so that they are
in accordance with the expectations established in policies, plans, and targets”. At the heart of control is the monitoring process, and there are two phenomena which can be monitored, i.e. behaviour and output (Baliga and Jaeger, 1984; Egelhoff, 1984; Ouchi, 1977). These two aspects are not substitutes of each other but two different means of control (Egelhoff, 1984).

In any context, control induces the desired performance while inhibiting dysfunctional behaviour (Gencturk and Aulakh, 1995). It reduces uncertainty, increases predictability, and ensures that behaviours originating in separate parts of the organisation are compatible and support common goals. Such an activity becomes more difficult to exercise as the context becomes more complex, such as in the context of interfirm alliances. TCE suggests the presence of opportunism and self-interest, therefore shared control is considered a necessity for partner firms to ensure both parties are acting towards achieving common goals.

Literature on IT and management discusses the role of IT in facilitating monitoring processes in both intra- and interfirm contexts (Jean et al., 2008; Yu, 2011). IT-enabled information exchanges between functions or firms allow a more "real-time" and more detailed understanding of individual actions. In the context of interfirm alliances, a clearer view of each other’s actions discourages opportunism and dysfunctional behaviour. Instead, actions become more visible to all (Yu, 2011) and therefore more predictable behaviour is promoted to achieve common objectives (Jean et al., 2008).

3.3.2 Interfirm coordination. Coordination is considered another important mechanism both in intra- and interfirm contexts (Jap, 1999; Karunaratna and Johnson, 1997). Its key function is to help firms to leverage their organisational resources locally and globally. There are generally two directions of coordination. Buvik and Reve (2002) noted vertical coordination to involve top-down two-way information transfer and co-actions between functions or firms whilst Baumol (2001) suggested horizontal coordination to involve joint efforts between alliances or joint venture partners. Despite the two entailing different types of synergy seeking and resource leverage (Baumol, 2001), in the context of interfirm alliance for market entry, we would expect both vertical horizontal coordination to be favourable for foreign firms as the former brings about upstream or downstream value creation through collaboration with local partners and the latter brings about synergy in product or process innovation and market performance.

As previous research argues that coordination requires effective communication and information flows between functions or firms, and IT has been found in studies to significantly enhance real-time communications and information exchanges (Adams et al., 1992). In the context of interfirm alliance for market entry, foreign and local partners must coordinate effectively with each other for upstream and downstream activities. It is suggested that IT improves such process through better exchanges which enhance interfirm value creation (Streeter et al., 1991).

3.3.3 Cross-firm formalisation. Formalisation, defined as “the degree to which organisational norms are defined explicitly” (Hall, 1982), is seen as the governance form which prescribes allowable and non-allowable behaviour through the use of rules and procedures (Egelhoff, 1984; Gencturk and Aulakh, 1995; Martinez and Jarillo, 1989). Hence, it has a direct impact on individuals’ behaviour by defining the nature of acceptable task performance and criteria for decision making (Baliga and Jaeger, 1984; Björkman et al., 2004; Fredrickson, 1986; Pfeffer, 1978). Formalisation is seen as providing governance through modifying behaviour (Baliga and Jaeger, 1984; Ouchi, 1977). In other words, through prescribing the bounds of behaviour, formalisation can limit decision-making discretion and restricts individual autonomy. Formalisation is also suggested to facilitate vertical and horizontal coordination by standardizing the ways in which functional activities are performed (Kim et al., 2003). In the context of collaborative partnerships, cross-firm formalisation is important for standardising individual partner’s behaviour to ensure
consistency in operations (Schul and Babakus, 1988). It also helps to provide a higher level of certainty and reduced conflicts in the partnership (Grandori and Soda, 1995).

As previously suggested, the important role of IT in transferring information and therefore establishing a more standardised view on organisation-wide practices can lead to more effective internal formalisation of operations. This view is empirically supported by the work of Yu (2011). In the context of collaborative market entry, actions and processes of foreign and local partners can be more consistent and visible to each other, and therefore, more effective in establishing interfirm best practices and greater value creation.

3.3.4 Hybrid centralisation. Centralisation is also an important form of governance commonly discussed in the context of headquarters or subsidiaries (Baliga and Jaeger, 1984; Egelhoff, 1988; Gencturk and Aulakh, 1995; Martinez and Jarillo, 1989, 1991). It is generally defined as the division of decision-making authority between parties (Ghertman, 1988; Gates and Egelhoff, 1986). The greater the centralisation a firm chooses to implement, the less delegation of decision making outside (Baliga and Jaeger, 1984; Gates and Egelhoff, 1986). Two major determinants of the level of delegation are suggested to be the complexity of operations (Hage and Aiken, 1967) and environmental uncertainty (Lawrence and Lorsch, 1967). In the context of collaborative partnerships, we argue that local firms are in a better position than foreign partners to evaluate the situations of the host market. Moreover, decisions to act are better informed at the local level due to the proximity to the market in response to diverse local demands (Bartlett and Ghoshal, 2002). Hence, overcentralisation by a foreign partner can result in ineffective decisions being made when the local context is not accommodated (Henderson and Smith-King, 2015; Mindruta et al., 2016; Roth and Nigh, 1992). Instead, a shared decision-making arrangement is likely to deliver both local and organisational benefits to partnering firms.

IT and management literature has suggested that organisational IT can help firms to gather necessary information for decision making (Huber, 1990). When real-time information is constantly and accurately shared between partner firms, mutual decision making becomes a possible and asymmetric relationship (Elg and Johansson, 1997; Mohr et al., 1996). Such decisions are made on the basis of combining local partner’s market knowledge with foreign partner’s product knowledge, and hence create higher value for both firms.

Hence, we draw upon RBV and TCE to propose that interfirm alliances with the intention of market entry are likely to generate most IT-led benefits in the areas of upstream and downstream marketing by enhancing four important interfirm governance mechanisms. It is likely that the relationship between IT capabilities (IT resources, related human resources, and IT integration) and firm performance outcomes (upstream and downstream marketing) is mediated by shared control, interfirm coordination, cross-firm formalisation, and hybrid centralisation. Specifically, interfirm IT capabilities can help both partners in terms of shared control of marketing processes and output in the way of timely information exchanges. Second, shared IT capabilities can also facilitate information exchanges between the partners. In terms of marketing decisions and activities which require coordinative efforts; both parties can be informed on time via shared IT. Third, shared IT capabilities allow both partners to “pre-programme” each other’s role and practices by setting agreed procedures inside the IT systems so that a level of operational formalisation for carrying out marketing activities is achieved. Building on these arguments, it is thus proposed:

\[ P2a \] The establishment of interfirm IT capabilities is likely to lead to more effective control shared between the foreign and local partner firms, so that marketing performance (upstream and downstream) is likely to be more desirable.

\[ P2b \] The establishment of interfirm IT capabilities is likely to lead to more effective coordination between the foreign and local partner firms, so that marketing performance (upstream and downstream) is likely to be more desirable.
The establishment of interfirm IT capabilities is likely to lead to greater formalisation of shared marketing processes, so that marketing performance (upstream and downstream) is likely to be more desirable.

3.4 Process moderators
Value creation of IT has been considered to be under the effects of internal and external moderators (Kim et al., 2006; Melville et al., 2004; Jean et al., 2008). This is due to potential effects many variables can have on IT and user firms. However, we argue that these moderators are still not fully explored to date in the context of interfirm alliances. Hence, we build upon the contingency theory perspective to conceptualise two categories of moderators which can have an impact on interfirm processes. We consider IT-related risks, and organisational processes to moderate the relationship between IT capabilities and interfirm governance mechanisms.

3.4.1 IT-related risks dimension. In our paper, we also propose two IT-related risks which are likely to impact on IT capabilities of the collaborating firms. Specifically, Mata et al. (1995) noted that technological uncertainty can be a risk as IT investment may not meet the expectations of the collaborating partners in a timely manner. Specific sources of this type of uncertainty include failure to obtain the anticipated IT results because of implementation difficulties, higher than anticipated implementation costs, longer than anticipated implementation time, low-technical performance at the outset of the investment, and incompatibility of the IT with the current organisational systems and processes of the partner firms. The second risk is market uncertainty which reflects the degree of acceptance of the invested IT in the respective marketplace of the collaborating firms (McFarlan, 1981). Consequently, we draw two related propositions: first, is that these two types of risks can potentially have negative effects on value creation between collaborative partnerships if inappropriately handled, and second, is that these risks can potentially be counteracted by developing appropriate IT capabilities at the outset between the partner firms through effective communications and teamwork (Feeny and Willcocks, 1998; Gorry and Morton, 1989; Shin, 2006). Hence:

P3a. IT-related risks can have negative moderating effects on the achievement of effective interfirm governance mechanisms through use of IT capabilities.

P3b. Effective establishment of interfirm IT capabilities counteract IT-related risks through reduced technological and market uncertainty.

3.4.2 Organisational characteristics dimension. Knowledge tacitness: it has been long suggested by RBV that one of a firm’s critical resources nowadays is knowledge. We follow the general classification of knowledge into two intertwined categories: explicit and tacit (Assimakopoulos and Yan, 2006; King and Zeithaml, 2003; Teece, 1998). Explicit knowledge is also known as codified information and expressed in words, data, numbers, and language. It is codified into symbolic forms such as documents and databases, and shared among individuals relatively easily. In contrast, tacit knowledge is personal, context-specific, and hard to formalise and to communicate among people. Tacit knowledge embeds cognitive elements including personal beliefs, values and mental models, and technical elements including technical skills and know-how (Nonaka and Takeuchi, 1995; Nonaka et al., 1998). Tacit knowledge often involves activities at individual, group, and organisational levels which are often invisible to outsiders of a particular organisational context. It is more personal and subjective, making it difficult to be formalised and tends to be deeply rooted in action, commitment, and involvement in a specific context (Nonaka and Takeuchi, 1995). Therefore, of the two types, tacit knowledge has more limited transferability. Further, explicit and tacit knowledge are inseparable and interactive (Polanyi, 1966; Roberts, 2000).
Hence, the distinctive properties of heterogeneity and immobility of tacit knowledge makes interfirm information and knowledge transfer challenging. Although IT facilitates information and codified knowledge exchanges between partner firms, the inevitable nature of tacit knowledge can moderate the exchange process. On another note, Nonaka et al. (2001) asserted socialisation is considered as an important and necessary process for tacit knowledge transfer, which occurs when knowledge to be transferred merely makes sense if it is abstracted from its context. Hence, for transfer to succeed, sender and receiver need to share a similar thinking process. This can only be achieved via continuous social interactions. Borghoff and Pareschi (1997) noted the importance of IT in facilitating socialisation via virtual networks for communications and information sharing. Personal interactions in distant context become possible and effective. Thus:

\[ P4a. \text{ Knowledge tacitness has negative moderating effects on achievement of effective interfirm governance mechanisms through utilisation of IT capabilities.} \]

\[ P4b. \text{ Effective establishment of interfirm IT capabilities facilitates tacit knowledge transfer through enhanced socialization.} \]

Horizontal visibility: the issue of invisibility between two entities has been mostly discussed in the context of headquarters-subsidiary relationships. The underlying cause is suggested embeddedness which implies an ambiguous view of a firm’s internal operations for outsiders (Holm et al., 1995). It is argued that such embeddedness makes it difficult for outsiders to form a good picture of the operation since the internal network is invisible to those who are not directly involved in a continuous manner. Hagedoorn (2006) described such a network relationship as a matter of trust, knowledge, and interpretations based on social interaction. It has evolved gradually overtime and can only be understood by those individuals who were directly involved in interactions. Hence, for collaborating partners from two different backgrounds and long-established idiosyncratic internal networks, a lack of accurate understanding and appreciation of the partner firm limits their ability to collaborate effectively. Visibility can only be improved overtime through enhanced information/knowledge exchanges. It is suggested only when parties have close proximity, will they be able to counteract information asymmetry (O’Donnell, 2000). Hence, without efficiency information exchanges, physical distance between them undermines coherent development. On another note, the ability of IT to manage (including storage, transfer, and integration) information by supporting interfirm communications in real time allows more obtainable knowledge and information (Walsham, 2001). Similarly, Nault and Dexter (1995) and Powell and Dent-Micallef (1997) saw IT as an important tool to facilitate effective collection and use of information. Hence, we argue that while collaborating partners are likely to experience horizontal invisibility issue as a result of internal embeddedness within their own organisations, IT can enhance interfirm visibility through efficient information exchanges. Thus:

\[ P5a. \text{ Restricted interfirm horizontal visibility has negative moderating effects on the achievement of effective interfirm governance mechanisms through the use of IT capabilities.} \]

\[ P5b. \text{ Effective establishment of interfirm IT capabilities enhances horizontal visibility through efficient information and communication exchanges.} \]

Absorptive capacity: although knowledge transfer is well-acknowledged by many to benefit firms’ capability enhancement, ultimately, what determines the value creation of the transfer (which therefore influences capability development) is another question. After knowledge is transferred, firms expect to see effective application of transferred knowledge to current operations in order to justify the action. Many have suggested that the outcomes of a transfer can be measured based on the absorptive and retentive capacity of the receiver
The former refers to the ability to acquire, absorb, and assimilate new knowledge to produce dynamic organisational capabilities, and the latter is the institutionalisation of what has been transferred. Specifically, once knowledge is successfully transferred, the receiver must make adjustments so that it can fit into (or become applicable in) the new context. The receiver needs to be able to identify the opportunities available to use knowledge in the current context (Garud and Nayyar, 1994). Effective communications and information exchanges between firms can help them make more appropriate use of received knowledge (Sambamurthy and Subramani, 2005). Hence, in the context of interfirm alliances for market entry, while partner firms’ ability to absorb and retain exchanged knowledge or information is likely to moderate the relationship between IT capabilities and interfirm governance, IT is also likely to enhance information exchanges and therefore absorptive capacity of partner firms. Thus:

- **P6a.** The limited absorptive capacity of partner firms’ has negative moderating effects on the achievement of effective interfirm governance mechanisms through the use of IT capabilities.

- **P6b.** Effective establishment of interfirm IT capabilities facilitates partner firms’ absorptive capacity through enhanced information and communication exchanges.

### 4. Contribution and implications for future research

Echoing a recent study by Jean *et al.* (2008) on IT-mediated international supply chain relationships, our paper has provided a holistic research framework and a number of propositions. Specifically, we provide a more complete and detailed conceptualisation of the impact of IT on interfirm governance mechanisms in the specific context of cross-border market-entry alliances. Our paper therefore contributes to the international marketing, international business and strategy, and IS literature.

Specifically, we reviewed diverse views and provided an integrated perspective of RBV and TCE into the framework. We believe this view underpins our answer to the following research question:

- **RQ1.** Whether and how interfirm IT affects international marketing performance in the way of improving collaborative relationships?

Several conclusions can be drawn from our conceptualisation. First, interfirm IT capabilities are not an effort of any one firm but the outcome of effective alliance between partner firms. Any one set of IT resources, e.g. IT systems, related human resources, or IT integration, alone could not create maximum value. Instead, appropriate alignment among the three brings IT capabilities, which are dynamic and idiosyncratic to the specific alliance. Second, IT capabilities do not necessarily have a direct effect on international marketing performance; instead, it is most effective in enhancing the interfirm relationship which subsequently leads to positive performance. Third, the marketing performance implications of IT in the context of cross-border alliances is an important managerial consideration and therefore successful implementation of IT is particularly necessary and critical for foreign partner firms. Lastly, the establishment of interfirm IT capabilities is further emphasised as they help firms to counteract associated risks and contextual limitations. Subsequently, our proposed framework and propositions developed in this paper open up several avenues for future empirical research.

Our paper has provided a distinct and integrated theoretical perspective which emphasises the role of IT in international alliances. We have provided a solid theoretical foundation for future empirical testing of IT capabilities in enhancing alliance performance by way of improving interfirm governance. Particularly, we have offered an alternative
view to the IT performance debate. Second, we have offered an integrated view of IT in the context of international alliances by building upon a number of literature streams (IT and IS, strategic management, and international business). Third, we have developed a conceptual framework incorporating key IT, interfirm relational, and marketing performance related variables in order to provide a more overarching conceptualisation of the usefulness of IT in alliance studies. This area remains under-explored.

Consequently, a number of research directions can be pursued to enhance current knowledge and understanding of IT value in international market-entry alliances. One of them is empirical testing of the propositions and the related framework in future studies. Another direction may be to specifically examine other types of international collaborations, such as joint venture, mergers, and acquisition to identify any potentially differences in terms of IT value. The availability of IT capability, governance, and marketing performance measures, as discussed in our paper, enable researchers to empirically test against each form of collaboration. A third possibility is to conduct longitudinal study of the effects of IT in the processes of international alliances, though the procedure involved is likely to be cumbersome. However, it would shed light on the “IT productivity paradox”. Future research can also take the direction of exploring the view of host market partner firms and comparing it against foreign partners to not only identify the value of the IT from a new perspective, but also to reveal any potential gaps or conflicts between foreign and local partners so to further enhance performance.

We hope that our paper has provided some useful insights on the topic of international marketing and generated new research interests into IT-mediated international market-entry alliances.

References


Further reading


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Push and pull factors in international franchising

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Abstract

Purpose – Using munificence, real options and ambidexterity theories, the purpose of this paper is to demonstrate how the differential between home and host market environmental conditions affects US international franchising expansion.

Design/methodology/approach – The authors used firm-level panel data for 151 US-based franchising firms, from Bond’s Guide for Franchise Opportunities, for the years 1994-2008 plus macroeconomic data on the environment, to explain the probability of franchising.

Findings – The paper finds that the differential in economic growth and economic uncertainty impacts franchisors’ desire to expand abroad on a continual basis.

Research limitations/implications – Researchers in international franchising should not only focus on host market environmental variables (pull factors), but also on conditions in the home market (push factors).

Originality/value – The paper adds to environmental explanations of international franchising by focusing on the differential in munificence and uncertainty between home and host countries.

Keywords Uncertainty, Ambidexterity, Real options, Economic conditions, Franchising internationalization, Munificence

Paper type Research paper

1. Introduction

Internationalization is a prerequisite for firm growth and competitiveness today (Buckley and Casson, 1976; Czinkota and Ronkainen, 2013). Research on international marketing channels has accelerated in recent years, focused mainly on the macroenvironment in developed countries (Hoppner and Griffith, 2015). Among international marketing channels, collaborative modes of entry have gained in popularity because many internationalizing firms are small and young and because some international environments are higher in risk (Swoboda et al., 2015). Franchising is a unique collaborative mode of entry with lower embedded risk (due to limited needed investment by the franchisor) and high level of contractual control (through a prescribed business format). Franchisors transfer know-how, industrial rights and intellectual property in return for consideration in the form of fees and royalties. Casson (2015) suggested that franchising is the desirable collaborative mode of entry where knowledge is an important component of the business model. As a result, franchising has become a dominant strategy among internationalizing firms across the service sector, particularly in hotels, retailing, and fast-food restaurants (Jell-Ojobor and Windsperger, 2014).

American franchisors accelerated their internationalization in the 1990s due to both push factors (such as domestic saturation, competition, and demanding consumers) and pull factors (such as economic opportunities and risk profiles of host markets) (Alon and McKee, 1999a). The franchising sector in the USA is largely international, with over 60 percent of franchisors seeking overseas opportunities. Franchising has allowed American service firms to internationalize with limited risk since the host market partner, either a direct franchisee or a master franchisee, assumes startup costs and initial investments.
Research on international franchising has focused on the challenges of internationalization, contrasting motivations, including economic growth, population growth, and low competition with the barriers in host countries, such as the legal environment, restrictions on repatriation of capital, and risk of losing intellectual property (Alon and Banai, 2000; Castilla and Mejias, 1998; Rysman, 2001; Alon and Welsh, 2001). Other researchers have investigated the organizational determinants of international franchising, finding that scale, agency, and resources are important variables (Alon and McKee, 1999b; Alon et al., 2012; Kahns, 2005; Ni and Alon, 2010). A few papers examine both organizational and environmental factors simultaneously (Aliouche and Schientrich, 2011; Sashi and Karuppur, 2002), but these papers have been mostly conceptual in nature. Case studies also show the impact of both company and country factors (Lee et al., 2008; Ngaochay and Walsh, 2011; Xu and Velamuri, 2009). Two problem are inherent in this earlier research: first, much of this research saw internationalization as a discrete one-time decision to explore foreign markets; once the decision was made, the franchisor was considered “international.” Second, when the external environment was considered most of the studies examined only characteristics of the host market. We view internationalization as a continuous decision that rests on conditions both at home and abroad.

The current paper expands the literature on international franchising by providing empirical evidence for the theories of international franchising that connect organizational and environmental variables. Specifically, we examine the impact of differential munificence and uncertainty between home and host markets. By doing so, we not only include information on the environment, controlling for firm-specific factors, but also suggest that internationalization via franchising is a continual process of evaluating the opportunity and risk in both the domestic and international marketplace. Previous research on the timing of international franchising assumes that the decision to go global, once made, is permanent. Our research suggests that the decision is made by examining the differential between the home and host markets, which changes on an annual basis. We explore the effects of environmental resources and uncertainty on international expansion via franchising.

Previous research on international franchising relies mostly on resource scarcity and agency explanations (Alon and McKee, 1999b; Lafontaine and Oxley, 2004). While these approaches are good for modeling firm capabilities in the context of internationalization, they are limited in providing the link to the external environment. We fill this gap in the literature by drawing from arguments of environmental munificence (Dess and Beard, 1984; Castrogiovanni, 1991) real options (Trigeorgis, 1996; Fisch, 2008), and organizational ambidexterity (Duncan, 1976; Raisch and Birkinshaw, 2008), this study combines synergistic prowess of these approaches to explain the internationalization of franchising firms. We investigate how external environmental conditions in the home market act as a “push factor” for firm executives to seek international franchising, and how the “difference” between home and host markets can attract firms or “pull” them internationally. We contend that real options, environmental munificence, and organizational ambidexterity offer a good explanation for when franchising firms will seek international partners.

2. Theory and hypotheses
2.1 Literature on international franchising
The literature discusses international franchising in five distinct domains: domestic vs international, the relationship between host market conditions and international franchising, propensity to enter international markets through franchising vs equity modes, international franchisor-franchisee relationship, and governance modes (Jell-Ojobor and Windsperger, 2014).

The first two domains are closely related and both use strategic, internal (firm-specific) factors that influence franchising internationalization based on the tenets of resource
scarcity and agency theory. Resource scarcity theory contends that franchisors will seek partners in international markets because franchisees possess local market knowledge and provide human and equity capital (Elango and Fried, 1997). Research shows that resource scarcity can explain franchising in the early years of a firm’s life cycle, whereas agency theory gives a more complete description in later years of franchising (Castrogiovanni et al., 2006). Agency theory, with its focus on aligning incentives to manage agency costs such as opportunism and monitoring (Shane, 1996), emerged as a better predictor of internationalization of franchising firms. Several studies in the 1990s (e.g. Alon and McKee, 1999b; Huszagh et al., 1992; Shane, 1996) and some more recent studies (Alon et al., 2012; Ni and Alon, 2010) use these two theories to identify antecedents of franchising internationalization such as firm size, franchising experience, growth rate, royalties, fees, price bonding, learned monitoring capability, and domestic geographic dispersion. For example, Shane (1996) reports that franchisors who create stronger price bonding are more likely to seek international expansion, since bonding helps curb franchisee opportunism. Ni and Alon (2010) confirm these findings in a study of fast-food restaurant franchisors. Shane (1996) also finds that monitoring capabilities of franchisors (learned over time) decrease opportunism, and thus lead to a higher probability of internationalization. More recently, Perrigot et al. (2013) suggested that intangible resources and plural forms are drivers of internationalization. The problem with these studies is their focus on firm-specific factors, and the lack of external factors for explaining internationalization. Internationalization is considered desirable regardless of external conditions when firms reach a certain scale and maturity.

The second domain investigates the effect of host market financial, economic, and political conditions on international franchising (Aliouche and Schlentrich, 2011) as pull factors for entering international markets. While there is growing evidence about what attracts franchising firms to international markets (Aliouche and Schlentrich, 2011; Preble, 1995; Hoffman and Preble, 2004), most of it relies on conceptual arguments. Eroglu (1992) proposes, for instance, a conceptual model where organizational and environmental factors have perceived risks (i.e. costs) and benefits which lead to intention to internationalize. While she does not specify the effect of economic conditions, one of the underlying dimensions of environmental factors pertains to the perceived favorability of external environment. Melo et al. (2015) suggested that both market opportunity (including consumption power) and business efficiency (including government and regulatory risk) contributed to the internationalization of Brazilian franchises.

Alon and McKee (1999a) developed a semantic scale to measure four host country factors – economic, demographic, cultural distance, and political – to explain the internationalization of US franchising systems. The economic dimension consists of three measures: GDP per capita, average GDP growth (over a seven-year period) and level of urbanization. While these conceptualizations are useful depictions of the economic environment, there is still limited evidence about how economic conditions affect international franchising after accounting for firm-specific characteristics. This line of research also suffers from a focus on the host market, with little attention given to how the home market conditions affect internationalization. To overcome the weaknesses of past studies of either the company-specific or host market-specific factors, we use theoretical arguments of munificence, real options, and ambidexterity to explain how the external economic conditions (both home and host) can influence international franchising.

2.2 Theories to explain international franchising
Internationalization studies employ several theoretical lenses that consider the effect of economic conditions of home or host markets, including real options (Fisch, 2008), transaction cost framework (Brouthers and Brouthers, 2003), environmental munificence
(Wan and Hoskisson, 2003), and organizational ambidexterity (Lou and Rui, 2009). But the international franchising literature has little to say about these theories, in part because franchising researchers rely on franchising theories (particularly resource scarcity and agency theories) despite the former theories’ robust explanation of when and why organizations need to make simultaneous decisions that are not mutually exclusive. In our case, franchising firms have an option to expand both domestically and internationally. While many drivers influence these decisions, we claim that the home and host economic environments together co-determine internationalization.

There is a research gap in theoretical explanations about how macroeconomic conditions serve as antecedents of internationalization in franchising (Alon and McKee, 1999a) because prior studies do not take into account the effect of home and host market conditions simultaneously. Outside the franchising literature, examining internationalizing Chinese firms, Child and Marinova (2014) examined institutional maturity and political stability as the dimensions affecting firms’ internationalization strategies, and suggested that it is the interaction between the home and host market conditions that determines the internationalization of firms.

The franchising literature to date has examined neither comparative development nor comparative risk in assessing internationalization. To overcome these shortcomings, this paper uses three theories that show how external economic factors influence decision making within organizations, in particular, with respect to going global (munificence, real options, and ambidexterity).

The munificence theory has to do with the external economic environment. Lawrence and Dyer (1983) posit that, along with uncertainty, munificence is a broad-based dimension of the environment. Munificence can be defined as abundance or scarcity of resources that determine the size of the opportunity present in the environment, ranging from high to low (Castrogiovanni, 1991). In the context of internationalization, home market munificence serves as an opportunity for a franchisor to grow its domestic markets because of an abundance of resources both on the supply and demand sides. For example, home market munificence is likely to spur business demand due to an increase in disposable income, which leads to improved firm performance through higher revenues (Colpan, 2008). In addition, the availability of human and capital resources opens the door for better firm-level productivity and growth. Tushman (1977) contends that in munificent environments firms may prefer to penetrate domestic markets, leading to a lower probability of expanding internationally.

The other dimension that influences firm’s decision is related to environmental uncertainty. Milliken (1987, 1990) put forward three types of environmental uncertainty: state, effect, and response uncertainty. Liu and Almor (2016) suggest that uncertainty is perceived differently between entrepreneurs of eastern and western cultures. Other categories of uncertainty could be external, economic, political, and currency uncertainties (Sashi and Karuppur, 2002). As we follow only franchisors from the USA at the firm level, the study adopts the classification from Sashi and Karuppur (2002) and focuses on uncertainty relating to the state of the economy. To determine the directionality impact of this uncertainty, the paper discusses theories on the relationship between economic uncertainty and international expansion (real options and ambidexterity).

Real options theory is commonly used to explain how firms make financial investment decisions under uncertainty. According to this theory, when investing in international markets multinational firms gain a right, but not an obligation, to exercise a future option (e.g. to defer, expand, contract, postpone, and abandon) (Li and Li, 2010). Li and Li (2010) point out that real options are valuable because they allow firms to increase their commitment or decrease their investment on the basis of environmental uncertainty. More specifically, this theory includes a time component, so firms that expand
internationally may exercise a waiting option (option to defer) to enter a given international market (Fisch, 2008). Firms may also adjust their mode of entry on the basis of changing market conditions. Previous studies show that the value of the option to defer is negatively influenced by factors including the level of market competition, the option to grow, and the option to learn (Folta and O’Brien, 2004; Kester, 1984; Kulatilaka and Perotti, 1998). In the context of franchising firms, environmental uncertainty in home markets should act as a push factor, and influence firm’s decision to seek expansion in international markets. By the same token, the positive difference in uncertainty between home and host markets (high vs low) will act as a pull factor for franchising firms. Internationalization provides an option for franchisors to escape unwelcome domestic conditions, and expand their presence in a less volatile and more fertile economic environment.

As a complement, another theory that may answer firms’ response to changing economic conditions is the organizational ambidexterity theory (Duncan, 1976). This theory states that the success of organizations depends on the concurrent use of strategies that require different structures, and are sometimes paradoxical in nature, such as exploration and exploitation. Raisch and Birkinshaw (2008) discussed several contexts in which contradictions between exploration and exploitation take place such as organizational learning, technological innovation, organizational adaptation, strategic management, and organizational design. It is important to note that there are two schools about what constitutes organizational ambidexterity for organizations that pursue exploration and exploitation. A meta-analysis by Junni et al. (2013) considered both of these perspectives: a balanced vs combined view. On one hand, the balanced perspective contends that there exist an optimal or mid-point where exploration and exploitation offer greatest benefits to firm performance (March, 1991). On the other hand, the combination view, contends that exploration and exploitation are independent of each other (Junni et al., 2013) and both should be maximized to increase organizational performance (Cao et al., 2009).

The theory of organizational ambidexterity has only recently been introduced to international management and marketing research (Lou and Rui, 2009). However, Lou and Rui (2009) claim that organizational ambidexterity is a potent theory for reasoning about internationalization because firms that become international do not have to make a choice between staying domestic and being international. Rather than viewing internationalization as a trade-off, this theory treats expansion in host markets as an “either/or” decision (Lou and Rui, 2009). That is, firms can still grow domestically while expanding internationally.

In franchising, organizational learning lens helped predict the use of market exploration (i.e. seeking franchising partners to open outlets) and market exploitation (i.e. opening company outlets in these markets) given the level of geographic dispersion of chain outlets (Sorenson and Sorensen, 2001). The study of Sorenson and Sorensen (2001) adopted the “balanced perspective” of organizational ambidexterity and did not offer any implications about the simultaneous use of exploration and exploitation in a given market across years nor the study considered internationalization. Therefore, there exists a need to predict when franchising firms will prefer to seek international franchising given macroeconomic market conditions. More specifically, the present study adds to the combined perspective of Cao et al. (2009) in the context of international marketing as in Lou and Rui (2009).

The real options and ambidexterity theories are complementary, and help explain the continuous international and domestic expansion of a franchisor. Ambidexterity theory postulates that firms can grow in their home markets and enter international markets simultaneously. What is more, firms can learn from these two strategies and implement them synergistically. For example, they could have an idea for developing a new product internationally, and apply it successfully in their domestic markets. In the present study, we aim to amalgamate the external environment conditions with the organizational ambidexterity of franchising firms. In other words, we posit that franchising firms are
capable to both expand internationally and grow in their home markets. However, in some years firms may do only one of these two things for economic reasons such as environmental munificence and uncertainty. Therefore, ambidexterity can be used as a theoretical lens to explain internationalization in both dimensions of the environment: munificence and uncertainty. Expanding simultaneously in both home and host markets is consistent with the tenets of organizational ambidexterity. That is, firms display ambidexterity because they engage in both exploration and exploitation, and learn from both. In international marketing, home market growth can be considered a type of exploitation, while international markets may bear features of exploration. McDonald’s, for example, learned logistics from their operations in Singapore and added menu items from their Indian operation, which they could later apply elsewhere. India and Singapore were important consumer markets, but also improved innovation at the headquarters’ level (Mujtaba and Patel, 2011).

2.3 Environmental munificence and international franchising
Several studies (e.g. Wan and Hoskisson, 2003) examine the potential influence of macroeconomic environments on internationalization. For instance, scarcity of resources (i.e. low munificence) is viewed as a push factor for international diversification into other markets to overcome a potential dependency on present domestic locations where a firm maintains outlets. On the other hand, a survey of franchising executives indicates that “ample growth opportunities in the United States is the main reason why franchising firms do not want to enter international markets” (Aydin and Kacker, 1990, p. 47). Thus, firms seek entry into international markets when the home market is less munificent than other markets (i.e. “negative relative munificence”). Under high home market munificence conditions, firms will prefer to grow in their home market and be less likely to seek international franchising. But when there is a negative relative munificence in favor of host markets, firms will be more likely to seek expansion into international markets. These arguments lead to the following hypotheses:

H1. Home market environmental munificence is negatively related to the probability of seeking international franchising.

H2. Relative environmental munificence has a negative relationship to the probability of seeking international franchising. When the USA has a higher environmental munificence than the rest of the world, US franchisors are less likely to seek international franchising.

2.4 Environmental uncertainty and international franchising
In the case of international franchising, firms that desire to expand in foreign markets via franchising contracts tend to focus on deciding which markets to enter, when to enter, or both. Even though franchising firms use little if any equity when they franchise their outlets, they still face several costs borne by various types of economic, political, and currency uncertainty (Sashi and Karuppur, 2002). Economic uncertainty can lead to failure and failure can damage the brand.

External uncertainty is usually defined as unpredictability of the environment in the host market (Anderson and Gatignon, 1986), but external uncertainty in the home market may also play a role in the decision to go international. External uncertainty may be especially critical because it manifests in both home and host markets, and may affect the intention to expand internationally. We argue that real options and ambidexterity theories can help predict the probability of seeking international expansion through franchising by considering the effect of external economic uncertainty.
Based on the tenets of real options theory, economic uncertainty in home markets would decrease the net present value of domestic investments due to higher costs of borrowing and demand fluctuations. Thus, when economic uncertainty at home is high, firms may begin looking for host markets that are less uncertain than the home market (Fisch, 2008). When economic uncertainty in home markets is high, the uncertainty will influence the net present value of the expansion in international markets. That is, the value of financial services, like financial assistance, lease assistance, training, and site selection assistance, will diminish. Franchisors also recognize that when home economic uncertainty is high, the likelihood of their reputation and brand being tarnished is also high. However, the present value of expanding in host markets should still be higher than the value of postponing international expansion. When home market uncertainty is lower than uncertainty in host markets, not seeking international expansion would be a better option. Therefore, firms will prefer to defer their international entry into some markets that have a higher uncertainty than their home markets. The real options perspective on how decision making works in reality is provided by the parsimonious model (McGrath and Nerkar, 2004). A firm will enter a host market or markets only when the net present value of such entry (C) is higher than the value of option to defer such an entry (D) (Fisch, 2008): If C > D, then internationalization occurs.

The ambidextrous view is built on the premise that organizations can be successful at doing two disparate things (Lou and Rui, 2009). In the context of franchising, growing in both foreign and home markets are not mutually exclusive options, because firms use some of the exploitative knowledge gained in home markets when they enter international markets. By the same token, the experience gained in international markets may be useful in improving domestic operations. On the basis of organizational ambidexterity, franchising firms will view home and host markets as important sources for gaining valuable experience. In economic terms, when environmental uncertainty in home markets is high, firms will prefer to use exploitative knowledge because it is based on perfected routines, requires less resources and brings more certain returns (Im and Rai, 2008). However, under conditions of low uncertainty, firms can share both explorative and exploitative knowledge, because of the difficulty of making predicting and the varying nature of explorative knowledge whose outcomes are easier to handle when external environment is less uncertain (Im and Rai, 2008). We contend that when the relative uncertainty of these markets favors host markets, franchising firms will resort to explorative knowledge and seek international franchise partners. Together, the reasoning and discussion of real options and ambidexterity lead to the following hypotheses:

H3. Home market economic uncertainty is positively related to the probability of seeking international franchising.

H4. Relative economic uncertainty is positively related to the probability of seeking international franchising. When the USA has higher economic uncertainty than the rest of the world, US franchisors are more likely to seek international franchising.

3. Methods
3.1 Sample and data
The sample for this study consists of US-based franchising firms listed in Bond’s Guide for Franchise Opportunities, a data set commonly used in studies about franchising (Alon et al., 2012). The main data set for the period between 1994 and 2008 has a database of 151 firms with eight years of consecutive listing in the Bond’s Guide between 2001 and 2008. Thus, we are able to eliminate firms that failed, exited the data set toward the end of the period or simply stopped franchising. For robustness checks, we used the full data set, comprising the same observation period (1994-2008) for 1,999 firms, resulting in 10,001 firm-year observations. All firm-specific measures are obtained from the Bond’s Guide.
3.2 Variables

The dependent variable in this study was whether or not firms sought international expansion through franchising. It was a binary variable where a given firm was coded “1” if it looked to expand internationally via franchising in that year and “0” otherwise (Shane, 1996; Alon et al., 2012). Shane (1996) contends that the intention to enter foreign markets answers two distinct questions about time and type of entry: “Do we want to expand at this point in time? And do we want to do it through franchising?” (p. 80).

The independent variables in this study are based on objective economic measures that serve as proxies for environmental munificence and economic uncertainty. The first independent variable was home market munificence (MUNIFICENCE), measured as the annual GDP growth rate (World Bank, n.d.)[1] (McNamara et al., 2003) of the US economy from year $t-2$ to $t-1$. We lagged this variable one year ($t-1$) because we expect that firm executives use the prior year’s GDP growth rate as a reference when they seek international expansion. The second measure was relative munificence (RELMUNIF) between two markets: the USA and the rest of the world, calculated as the difference between the US GDP growth rate and the GDP growth rate for the rest of the world. This variable was lagged in the same fashion as MUNIFICENCE.

The second set of independent variables pertains to economic uncertainty. Home market uncertainty (UNCERTAINTY) was estimated using the ARCH model (McKenzie and Mitchell, 2002) with a series of annual GDP growth rates between 1930 and 2012. The conditional variance of the model was used as a measure of economic uncertainty. We also computed a measure of relative uncertainty (RELUNCERT), the difference between conditional variance of annual GDP growth rate series of the USA vs the rest of the world.

We used several firm-level control variables that are common covariates in franchising studies, including firm size (SIZE) (total number of outlets), franchising experience (AGE) (number of years franchising), franchisee fee (FEE) (the initial fee paid to the franchisor), and startup cost (STARTUP) (the initial investment required to open an outlet) (cf. Shane, 1996; Alon et al., 2012) The study controls for international experience (INTEXP) measured as the proportion of international outlets to total outlets. We also included an industry dummy variable (IND) and used year dummies (YEAR) to control for time trends.

Descriptive statistics for macroeconomic indicators show that the mean value for MUNIFICENCE was 2.83. The mean value for relative munificence was $-0.42$, which shows that the rest of the world had a greater mean munificence for the observation period. RELUNCERT also had a negative value ($-2.10$) which shows that the USA had a lower mean uncertainty for the examined period. On average, firms in our sample have been franchising for approximately 27 years, had a presence in more than 30 US states, and an average size of 1,119 outlets (Table I). The average franchise fee was US$27,553 and the startup investment was US$341,714 with a standard deviation of more than US$665,000.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Mean</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
<th>9</th>
<th>10</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. MUNIFICENCE</td>
<td>2.83</td>
<td>1.03</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
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<tr>
<td>2. RELMUNIF</td>
<td>-0.42</td>
<td>1.25</td>
<td>0.677*</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>3. UNCERTAINTY</td>
<td>18.70</td>
<td>11.70</td>
<td>-0.202*</td>
<td>0.136*</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>4. RELUNCERT</td>
<td>-2.10</td>
<td>12.37</td>
<td>-0.585*</td>
<td>-0.054*</td>
<td>0.279*</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>5. SIZE</td>
<td>1,119.50</td>
<td>3,069.99</td>
<td>-0.049*</td>
<td>-0.052*</td>
<td>0.008</td>
<td>-0.002</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
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<td>6. AGE</td>
<td>27.75</td>
<td>17.50</td>
<td>-0.122*</td>
<td>-0.194*</td>
<td>-0.039</td>
<td>-0.029</td>
<td>0.502*</td>
<td></td>
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<tr>
<td>7. STATES</td>
<td>30.79</td>
<td>15.47</td>
<td>-0.033*</td>
<td>-0.060*</td>
<td>-0.008</td>
<td>-0.014</td>
<td>0.749</td>
<td>0.385*</td>
<td></td>
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<tr>
<td>8. FEE</td>
<td>27.553</td>
<td>40.252</td>
<td>-0.014</td>
<td>-0.060*</td>
<td>-0.025</td>
<td>-0.033</td>
<td>0.088*</td>
<td>0.028</td>
<td>0.049*</td>
<td></td>
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<tr>
<td>9. STARTUP</td>
<td>341.714</td>
<td>665.018</td>
<td>-0.079*</td>
<td>-0.108*</td>
<td>0.001</td>
<td>-0.026</td>
<td>0.155*</td>
<td>0.155*</td>
<td>0.009</td>
<td>0.055*</td>
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<td>10. INTEXP</td>
<td>0.126</td>
<td>0.179</td>
<td>-0.050*</td>
<td>-0.060*</td>
<td>0.006</td>
<td>-0.008</td>
<td>0.155*</td>
<td>0.259*</td>
<td>0.123*</td>
<td>0.004*</td>
<td>0.004</td>
<td>1</td>
</tr>
</tbody>
</table>

Table I. Descriptive statistics

Notes: Reported means and standard deviations for SIZE and STARTUP are not transformed. *$p \leq 0.05$
The four independent variables measuring macroeconomic conditions were not highly correlated, which implies that they have distinct relationships with the probability of seeking international franchising. Among the control variables, SIZE and STATES had the highest correlation (0.749). As a precaution, we looked at the variance inflation factor values, which ranged between 1.02 and 1.26. These values are well below the threshold value of 10 (Pedhazur, 1997), which allows us to conclude that multicollinearity is not present.

3.3 Data analysis and modeling
We use logistic regression with two-way clustered robust standard errors; the intention to expand internationally through franchising (INTFRAN) was our dependent variable. We used two-way clustered approach controls for correlations among franchising firms in the same observation year, while it also considers the observation of the same firm across all observations years which yields unbiased standard errors (Cameron et al., 2011; Thompson, 2011).

We used a hierarchical logistic regression to demonstrate the unique impact of economic variables on internationalization. We first ran a baseline model with all control variables, then added economic variables to each of the models (Model 2 through Model 5). Below we present Model 2 with home market munificence (MUNIFICENCE) as an independent variable:

\[ \text{INTFRAN} = a + b_1 \text{SIZE} + b_2 \text{AGE} + b_3 \text{STATES} + b_4 \text{FEE} + b_5 \text{STARTUP} + b_6 \text{INTEXP} + b_7 \text{IND (dummies)} + b_8 \text{YEAR (dummies)} + b_9 \text{MUNIFICENCE} \]

where INTFRAN denotes whether or not a firm seeks international expansion through franchising, SIZE is the number of outlets, AGE the franchisor age, STATES the number of US states, FEE the franchise fee, STARTUP the startup cost, INTEXP the proportion of international outlets to total outlets, IND the industry categories, YEAR the year dummies, and MUNIFICENCE the home market munificence.

4. Findings
As Table II shows, the findings for Model 1 with control variables suggest that older firms are less likely to seek international franchise partners (−0.021, \( p < 0.05 \)). Prior internationalization experience is positively related to future international franchising.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Model 1</th>
<th>Model 2</th>
<th>Model 3</th>
<th>Model 4</th>
<th>Model 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constant</td>
<td>13.646***</td>
<td>51.071***</td>
<td>−35.813***</td>
<td>−16.318***</td>
<td>14.064***</td>
</tr>
<tr>
<td>SIZE</td>
<td>0.339</td>
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<td>Yes</td>
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<tr>
<td>MUNIFICENCE</td>
<td>−20.167***</td>
<td>−10.088***</td>
<td>1.466***</td>
<td>1.494***</td>
<td>1.494***</td>
</tr>
<tr>
<td>RELMUNIF UNCERTAINTY</td>
<td>−10.088***</td>
<td>1.466***</td>
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</table>
| Notes: "Yes" denotes that dummy variables were included in the logit model estimation. *\( p < 0.05 \); **\( p < 0.01 \); ***\( p < 0.001 \)
Model 2 tests the hypothesis about the effect of munificence on internationalization. Results show that munificence is negatively related to internationalization of franchising firms ($-20.167, p < 0.001$) which lends support for $H1$. The relationship between relative munificence (the USA vs the rest of the world) also has a negative significant influence on international franchising ($-10.088, p < 0.001$), consistent with $H2$. The third hypothesis predicts that home market uncertainty will push firms to seek international franchising in more stable markets. Model 4 shows that UNCERTAINTY has a positive influence on franchising internationalization, which confirms the predictions of $H3$ ($1.466, p < 0.001$). The last model (Model 5) indicates that relative uncertainty (the USA vs the rest of the world) is also a significant predictor of international franchising. That is, RELUNCERT is positively related to international franchising ($1.494, p < 0.001$) and firms are more likely to seek international franchising when the US market is more uncertain than the rest of the world which offers support for $H4$.

The logit regression is a binary regression, a well-established statistical technique to model a choice in marketing (Guadagni and Little, 1983). A positive coefficient indicates a higher probability of seek international franchise partners (“1”) and a negative coefficient means a lower probability of seeking international franchise partners. The following equation shows how the coefficients indicate the probability of seeking international franchise partners:

$$P_i = \frac{e^{xb}}{1 + e^{xb}} = \frac{1}{1 + e^{-xb}}$$

(1)

$P$ is the probability of having 1 (seek international franchise partners); $x$ the vector of the variables of the logit regression; and $b$ the vector of the coefficients of the variables in the logit regression.

To explain the support that our regressions gives to our hypotheses, we used the above equation to find the marginal impact that the four dependent variables (MUNIFICENCE, RELMUNIF, UNCERTAINTY, RELUNCERT) have on the probability of seeking an international franchise partner. In Equation (2), we use the impact of RELMUNIF and in Equation (3), the impact of RELUNCERT as examples, but the same relationships would be seen using the other variables. Note that the coefficient in the equations is taken from the respective logit results (Table II) for RELMUNIF and RELUNCERT:

$$P_{International Franchise} = \frac{1}{1 + e^{[0.88 \times \text{RELMUNIF}]}}$$

(2)

$$P_{International Franchise} = \frac{1}{1 + e^{[-1.494 \times \text{RELUNCERT}]}}$$

(3)

The results of Equations (2) and (3) are displayed in Figures 1 and 2, respectively. The $Y$-axis represents the marginal effect on seeking international franchise partners probability (from 0 to 1); and the $X$-axis represents an extraction of the dependent variable range of values in the sample.

We conducted additional analyses to confirm the robustness of our results. First, we included the two bonding and monitoring variables from Shane (1996) to our models for predicting franchising internationalization. Next, we calculated annual industry growth for each industry as an additional control variable. All munificence and uncertainty variables remained significant and had the hypothesized directional signs. To confirm that munificence and uncertainty variables make a unique contribution for explaining international franchising, we ran two additional models. In the first model, we included both
MUNIFICENCE and UNCERTAINTY as independent variables. Our findings indicated that both variables were significant and had the expected directional signs. We repeated the same analysis by including both relative measures (RELMUNIF and RELUNCERT). Here again, both relative measures were significant and had the same sign as in main analysis. Finally, we reran our four focal models (Model 2 through Model 5) with the full, unbalanced sample. Results remained unchanged, increasing our confidence in the models.

5. Discussion and conclusion
The findings of this study not only corroborate previous studies on market conditions and internationalization of franchising firms (Aydin and Kacker, 1990; Alon et al., 2012), but also add to more than four decades of research on collaborative entry modes by empirically showing that both home and host market economic conditions play a role when firms seek international expansion. This is an important contribution to international marketing literature which looked at host market factors on the choice of market entry mode (Kwon and Konopa, 1993) but rarely considered the timing of internationalization decision. Therefore, unlike previous studies in marketing which sought an answer to the question of “which mode” for service firms (Erramilli and Rao, 1993), this study offers an answer to the question of “when.” Despite franchising is inherently a low-risk option, the paper finds that franchisors prefer to avoid uncertainty. This study contributes to research on collaborative entry modes by

Figure 1. Marginal impact of RELMUNIF on the probability of internationalization

Figure 2. Marginal impact of RELUNCERT on the probability of internationalization
demonstrating how market conditions, along with internal firm characteristics, affect internationalization. In addition, results of this study enrich recent literature on internationalization of service firms which investigates issues such as augmenting vs exploiting entry modes (Pla-Barber et al., 2014) internalization speed (Mohr and Batsakis, 2014), value creation logics (Orberg Jensen and Petersen, 2014), and internationalization through social entrepreneurship (Ghauri et al., 2014).

Our results show that seeking partners in host markets is driven by the environmental munificence and uncertainty. Theoretically, we demonstrate that the real options and ambidexterity theories offer a complementary explanation for when franchising firms seek international expansion. More importantly, we contribute to the theory of real options by showing that firms follow the “wait and see” approach when host markets are less munificent or more uncertain than home markets. The use of real options and ambidexterity to explain when franchising firms seek international partners expands marketing literature which employed more traditional theories of internationalization such as the Uppsala model and the eclectic paradigm (Whitelock, 2002).

Franchising by its very nature is ambidextrous because organizations learn by exploring and exploiting their home markets (Sorenson and Sorensen, 2001). Our study adds an additional layer to exploration vs exploration dilemma by demonstrating that home markets are best suited for exploitation and host markets are hotbeds for exploitation. The findings of the present study confirm the claim made by Lou and Rui (2009) that disparate factors such as growing in home and host markets should be considered simultaneously. That is, when possible both strategies should be applied. However, when munificence and uncertainty say otherwise, then an organization ought to implement the strategy that is most beneficial to the firm.

The present study contributes to practice by showing that internationalization is not a discrete activity that happens once in a company’s life. In fact, managers continuously monitor both the domestic environment and the foreign environment simultaneously, and devote resources to those markets that are more munificent and less uncertain based on these evaluations. Marks and Spencer, for example, went global in the 1960s partially as a response to pressures from market labor unions in their home market, and expanded to Asia in the 1990s due to the economic boom there (Alon, 2012). International franchising provides an opportunity to test the market with relatively little risk, thereby, providing a platform or “real option” for future growth. During the US financial crisis in 2008, the lack of credit and a deep economic recession pushed some US franchisors to seek markets elsewhere, through franchising. The current discussion suggests that managers should not see “internationalization” as a single discrete activity, but rather as an ongoing option and an alternative to domestic growth in times of differential economic growth or uncertainty. Rather than focusing on the timing of the “go global” decision, managers should focus on resource-allocation in diversified markets that generate system-wide growth, regardless of the country. Internationalization provides an opportunity for managers to explore new venues of growth and to exploit their competitive advantage. For example, McDonald’s international success has helped it buffer against a slowing US economy, and develop new products and services for its worldwide system. Franchising can also be used as an option for greater involvement in the market, for example, through direct ownership. Most franchisors resist the temptation of ownership in lieu of more franchises in existing or new markets, but the option to deepen the investment and control does exist and should be examined when differential environmental conditions warrant it.

Previous studies, such as Melo et al. (2015) and Aliouche and Schlenrich (2009) correctly identified the host market factors attracting international franchisors. However, managers should be aware of that the push factors ought to be evaluated against these pull factors when deciding to devote additional resources to internationalization. Only if the
attractiveness of the foreign market overcomes that of the home market should managers be tempted to divert scarce resources.

Finally, most studies of international franchising to date have concentrated on either the macroenvironmental factors (e.g. Alon and McKee, 1999a; Welsh et al., 2006) affecting expansion, or the organizational factors (e.g. Huszagh et al., 1992; Fladmoe-Lindquist, 1996; Doherty, 2009) associated with internationalization. The international franchising literature has mostly concentrated on the latter. This study takes both environmental and organizational variables into account and focuses on the former. Further, it examines environmental factors from the standpoint of both the host and home environments.

5.1 Limitations and future research

This study has several limitations that we acknowledge. Our data do not specify which countries the firms targeted. Therefore, our study is not specific to a particular market. We looked at domestic vs international markets in general. Future research may analyze how companies chose specific markets vis-à-vis each other and the domestic market based on differences in market potential and risk. Direct measures of franchising in specific countries can facilitate data analysis and knowledge development on international franchising and its theoretical underpinnings.

The present study does not look at other external factors such as political risk and culture that are known to influence internationalization (e.g. Alon and McKee, 1999a; Hoppner and Griffith, 2015; Samiee et al., 2015). Augmentation of the current study may enlarge the number of macroenvironmental variables to model the impact of distances on internationalization, but data on the specific host market environment are needed. Future studies should consider other external factors and use measures such as cultural distance and political risk as additional antecedents of international franchising.

We were unable to control perceived behavioral uncertainty by firm executive teams, which may affect the timing of international expansion. In addition, our dependent variable does not capture if firms intend to grow in home markets either via franchising or company-owned outlets. Our focus here is on the internationalization decision and not on the modes of entry per se. Therefore, the present study does not offer a full picture of organizational ambidexterity and real options. Future studies should include the dynamic and sequential investment in host markets to better test real options theory in international franchising. We also hope that researchers use other theoretical lenses such as real options and resource dependence to better understand the timing of entry through collaborative entry modes.

Note

1. Please see the Appendix, Table A1 for a detailed description of all the variables.

References


Appendix

<table>
<thead>
<tr>
<th>Variable</th>
<th>Source</th>
<th>Definition/Question</th>
</tr>
</thead>
<tbody>
<tr>
<td>GDP Growth</td>
<td>World Development Indicators</td>
<td>Annual percentage growth rate of GDP at market prices based on constant local currency. Aggregates are based on constant 2005 US dollars. GDP is the sum of gross value added by all resident producers in the economy plus any product taxes and minus any subsidies not included in the value of the products. It is calculated without making deductions for depreciation of fabricated assets or for depletion and degradation of natural resources.</td>
</tr>
<tr>
<td>SIZE</td>
<td><em>Bond’s Guide for Franchise Opportunities</em></td>
<td>Total number of outlets</td>
</tr>
<tr>
<td>AGE</td>
<td><em>Bond’s Guide for Franchise Opportunities</em></td>
<td>Number of years since the chain began franchising</td>
</tr>
<tr>
<td>FEE</td>
<td><em>Bond’s Guide for Franchise Opportunities</em></td>
<td>Initial fee to join the system</td>
</tr>
<tr>
<td>STARTUP</td>
<td><em>Bond’s Guide for Franchise Opportunities</em></td>
<td>The minimum net worth required</td>
</tr>
<tr>
<td>INTXEP</td>
<td><em>Bond’s Guide for Franchise Opportunities</em></td>
<td>Proportion of international outlets to total outlets</td>
</tr>
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</table>

Table AI. Variable definition

Corresponding author
Amir Shoham can be contacted at: amir.shoham@temple.edu

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Abstract

Purpose – The purpose of this paper is to investigate the role of transnational entrepreneurs in growing born global firms, with a focus on the growth process facilitated by collaborative entry mode.

Design/methodology/approach – The author chose the solar photovoltaic industry as the empirical setting. This industry is a particularly good context for the study because many firms in this industry sell knowledge-intensive products internationally from their inception. The primary data consist of 32 in-depth interviews with entrepreneurs, industry association representatives, research institute scholars, and professional service firms.

Findings – The study highlights the importance of transnational entrepreneurs who develop born global firms to maturity by using their technological knowledge, international connections, and bicultural advantages to navigate and leverage institutional complexity. Collaborative entry mode with distributors enables born global firms’ high growth rapidly, whereas transnational entrepreneurs play a central role in building and expanding international network. Initial public offering in overseas stock exchange accelerates the high growth trajectory of born global firm by signalling its maturity.

Research limitations/implications – The author took a process perspective by examining the growth and maturity of born global firms by collaborative partnership; the author’s focus on the role of transnational entrepreneurs highlighted entrepreneurs’ sensitivity to institutional complexity along the growth trajectory.

Practical implications – The author recommends both incumbent and entrepreneurial firms in developed economies collaborate with transnational entrepreneurs in various business areas. Industry firms may be able to cooperate on product and marketing development, and professional service firms can offer services to expand born global firms further, because transnational entrepreneurs follow the global “rules of the game”.

Originality/value – The author shed important light on the role of transnational entrepreneurs throughout the growth of born global firms via collaborative entry mode. Furthermore, the author develops a multilevel framework for analysing the combined influence of transnational entrepreneur and institutional complexity on the growth of born global firm.

Keywords Maturity, Institutional complexity, Born global firms, Growth by collaboration, Solar photovoltaic industry, Transnational entrepreneur

1. Introduction

As an important form of international new venture, born global firms have received significant attention from both scholars and practitioners over the past two decades (McDougall-Covin et al., 2014). Born global firms are commonly characterised as young, knowledge-intensive organisations that typically sell innovative, self-developed technology-based products to global markets (Almor, 2011; Knight and Cavusgil, 2004; Oviatt and McDougall, 1994). To date, scholarship on born global firms has investigated why and how born global firms internationalise early on (Almor et al., 2006; McDougall and Oviatt, 2000), yet a dearth of research addresses their growth and maturity (Jones et al., 2011; Keupp and Gassmann, 2009).

We argue that accounting for individual entrepreneurs’ role and taking a process perspective on growth significantly enhances the field’s understanding of entrepreneurial growth in general and born global firms’ growth in particular. First, despite theoretical and empirical progress in the study of born global firms, various authors note that born global literature rarely accounts for the role of the individual entrepreneur(s) behind born global firms (Andersson, 2000; Wright et al., 2007; Yeung, 2002). Because entrepreneurs are the
ones who envision, initiate, and develop born global firms, researchers have called for more scholarly attention to individual entrepreneurs and their roles in establishing and developing born global firms (Madsen and Servais, 1997). By focusing on entrepreneurs—individual managers of born global firms, the accelerated internationalisation and strategic orientation of born global firms can be better understood (Freeman and Cavusgil, 2007; Freeman et al., 2013). Aligning with this line of argument, we suggest that a focussed, nuanced analysis of the entrepreneur(s) behind born global firms can provide novel and deeper insights into the born global phenomenon.

Transnational entrepreneurs migrate from one country to another and maintain business links in both their former and their current locations (Drori et al., 2009). By extension then, transnational entrepreneurial activities involve cross-national contexts and are initiated and carried out by actors who are embedded in at least two different social and economic arenas. Because of their dual (or multiple) embeddedness, the actions of such entrepreneurs are enabled and/or constrained by the institutional structures in which they operate (Saxenian, 2007). We suggest that these particular characteristics of transnational entrepreneurs are highly relevant for the growth trajectory of the born global firms.

Combining a process view with a focus on the transnational entrepreneur(s) behind a born global firm, we aim to examine how transnational entrepreneurs grow born global firms. Specifically, we explore the roles of their technological knowledge, international experience, and social capital (Gassmann and Keupp, 2007). An entrepreneur’s international experience helps mobilise knowledge flows beyond geographical boundaries and facilitates global market dispersion (Terjesen and Elam, 2009). Furthermore, the social capital of entrepreneurs behind born global firms is crucial for growing new ventures globally (Coviello, 2006). Moreover, collaborative entry mode constitutes an important organisational form for firms entering overseas markets (Gomes et al., 2011). However, the existing born global literature fails to acknowledge the importance of collaborative entry mode and its influence on born global firm’s growth. We thus investigate:

**RQ1.** How do transnational entrepreneurs develop born global firms’ growth by collaborative entry mode?

Furthermore, as Yeung (2002, p. 30) points out, transnational entrepreneurial activities must adapt to the institutional relations in both home and host countries, while “These institutional relations may be defined by the social and business networks in which these transnational entrepreneurs are embedded, the political-economic structures, and the dominant organisational and cultural practices in the home and host countries”. By fulfilling the global market demand for knowledge-intensive products, born global firms may exhibit a high growth trajectory by standardising high-tech products (Almor et al., 2006). Thus, the second research question we examine is as follows:

**RQ2.** How do transnational entrepreneurs respond to institutional complexity in growing born global firms?

To investigate our research questions, we chose the solar photovoltaic (PV) industry as our empirical setting. This industry is a particularly good context for our study because many firms in this industry sell knowledge-intensive products internationally from their inception (Haley and Schuler, 2011). The nature of our research questions led us to choose qualitative research methods, adopting a methodological pluralism approach (Coviello and Jones, 2004; Leitch et al., 2010). Our primary data consist of 32 in-depth interviews with entrepreneurs, industry association representatives, research institute scholars, and professional service firms. We carried out interviews from August 2010 to September 2011. We collected the secondary data used in our analysis from sources such as annual reports and government regulatory and policy documents.
We structure this paper as follows. We begin by discussing the current research on born global firms, transnational entrepreneurs, and institutional complexity—specifically, the influences of transnational entrepreneurs and institutional complexity on born global firms' growth. We then present the research context and design. Next, we discuss our empirical findings. We conclude by proposing a multilevel process model and outlining theoretical and managerial implications, as well as future research directions.

2. Theoretical background

Born global firms and transnational entrepreneurs

According to a seminal article, born global firms are “small, technology-oriented companies that operate in international markets from the earliest days of their establishment” (Knight and Cavusgil, 1996, p. 11). Researchers commonly characterise born global firms as young, knowledge-intensive organisations that sell mainly innovative, self-developed, technology-based products to global markets (Almor, 2011; Knight and Cavusgil, 2004, 2005; McDougall and Oviatt, 2000; Oviatt and McDougall, 1994, 1995). Despite theoretical and empirical advances in studying born global firms, few studies have examined the roles of individual entrepreneurs in developing born global firms (Karra et al., 2008). Scholars urge that primary consideration should be given to the past experiences, current ambitions, and motivation levels of born global leaders when investigating the born global phenomenon (Madsen and Servais, 1997).

The knowledge-based view has been applied to studying the internationalisation of born global firms (Hohenthal et al., 2014). Entrepreneurs who possess the required technological knowledge and international knowledge play a critical role in developing a born global firm (Nordman and Melén, 2008). One study that examines the born global phenomenon in the context of Brazilian software firms highlights the influence of entrepreneurs in driving the born global path instead of the traditional internationalisation process (Dib et al., 2010). As for rapid knowledge development, born global entrepreneurs can use both preexisting and newly formed relationships to quickly and proactively develop new knowledge for the rapid commercialisation of their products (Freeman et al., 2010).

Transnational entrepreneurs who bridge national boundaries have been argued to have a significant impact on the development of local industries (Saxenian, 2002, 2007; Wadhwa et al., 2011). Extant research has discussed returnee entrepreneurs, but for our purposes, transnational entrepreneurs differ from returnee entrepreneurs significantly. In particular, returnee entrepreneurs are largely oriented towards their original home country markets, though they could adopt an international orientation using their experience and affiliation with the countries from which they have returned (Lin and Tao, 2012). In contrast, transnational entrepreneurs are more inclined to capitalise on the global market by leveraging their transnational experience, becoming active wherever they perceive demand for their products or services. Terjesen and Elam (2009) show that the founding entrepreneur's international experiences help mobilise knowledge flows beyond geographical boundaries and facilitate global market dispersion. The international experience of transnational entrepreneurs reduces barriers and helps smooth a born global firm's interactions and negotiations with firms from different cultures (Kuemmerle, 2005). Furthermore, the social capital of migration plays a critical role in influencing the international growth of new ventures (Prashantham and Dhanaraj, 2010). Transnational entrepreneurs with international social capital could facilitate a firm's rapid growth on a global scale. Consequently, compared with returnee entrepreneurs, transnational entrepreneurs are more likely to develop born global firms on a global rather than national or binational scale. Transnational entrepreneurs with both advanced technological know-how and an entrepreneurial orientation can take advantage of the technological advances and develop more alliances with international markets.
Transnational entrepreneurs tend to exhibit the characteristics of bicultural people, those who can identify with two (or more) distinct cultures by internalising more than one set of cultural schemas (Brannen and Thomas, 2010). Biculturals not only develop more complex cultural representations, but also seem to develop increased cognitive complexity across domains (Tadmor et al., 2009). These cognitive capabilities are necessary to understand the institutional elements and environmental impact of an individual’s venture creation decision (Lim et al., 2010). Urbano et al.’s (2011) Spanish case study concludes that sociocultural factors affect the development of transnational entrepreneurial activities. Consequently, a transnational entrepreneur’s cognitive capabilities may facilitate the born global firm’s growth.

Collaborative entry mode and born global firms' growth
Entry mode decision is critically important for firms expanding abroad. Existing research documented the influences of institutional and cultural factors on entry mode choice and firm performance (Brouthers, 2013). Foreign market entry strategies affect post-entry growth performance (Tan, 2009). Most recently, scholars suggested entry mode studies should consider the evolution of operations resulting from the peculiar entry mode choice (Hennart and Slaghekke, 2014). Collaborative entry mode constitutes an important organisational form for firms entering overseas markets (Gomes et al., 2011). For instance, collaborative arrangement can assist firms to gain access to the required resources (Speckbacher et al., 2015). Furthermore, knowledge safeguards and institutional safeguards influence foreign market entry mode choice of small and medium-sized enterprises (Maaekelburger et al., 2012). Hence, the influence of collaborative entry mode on firm growth warrants serious scholarly investigation.

We subscribe to the growth as a process view (Leitch et al., 2010) and argue that by juxtaposing the process perspective with institutional context, we can gain a nuanced understanding of born global firms' growth as we consider the transnational entrepreneur’s role. During this growth process, collaborative entry mode plays a critical role for the following reasons: the nature of born global firms to export products overseas, collaborative entry mode may overcome resource constraints, and collaboration is conducive to managing uncertainty. First, born global firms generate income mainly through overseas market operation (Coviello, 2015). The nature of born global firms requests the intensive interaction with overseas partners in operating and growing the business. The collaborative entry mode is associated with a dynamic characteristic, such as sellers and buyers interact with each other over time (Narayandas and Rangan, 2004). Collaborative entry mode enables the born global firms to dynamically observe and adapt their interactive relationships with overseas partners. One recent study revealed that maturing technology-based born global firms can increase their chances of survival by acquiring other firms (Almor et al., 2014).

Second, born global firms normally possess limited resources as the firms began pursuing global strategy since inception, this can significantly constrain its entry mode choice. A recent study investigated the born global maturing process and found out the HRM practices of born global firms evolved over time as the resource constraints changed (Glaister et al., 2014). Another study based on 700 SMEs in Germany revealed that SMEs tend to undertake a cooperative approach in collaborating with other firms to cope with talent management in order to overcome the resource constraints (Festing et al., 2013). Collaborative partnership, such as selling produces through distributors, can help born global firms to mitigate the influence of resource constraints. Third, due to the institutional differences between home and host country contexts, a high degree of uncertainty may put additional obstacle for born global firms. The dynamics and potential vulnerability of the supplier-buyer relationship may further enhance uncertainty. A recent study found that entrepreneurs choose to establish and nurture collaborative partnership in managing uncertainty (Liu and Almor, 2016). Therefore, we argue collaborative entry mode may facilitate born global firms manage and navigate through institutional complexity in the pursuit of growth.
Born global firms and institutional complexity

The institutional context constitutes a crucial factor for entrepreneurial and born global firms’ growth (Welter, 2011; Wright and Stigliani, 2013). Multiple competing institutional demands necessitate that organisations deploy appropriate responses when dealing with institutional complexity (Greenwood et al., 2011). Scholars have begun to explore actors’ interaction with institutional complexity by examining institutional logics in action (Lounsbury and Boxenbaum, 2013), such as how individuals in hybrid organisations respond to competing institutional logics (Pache and Santos, 2013). Pache and Santos (2013), for example, use a comparative case study of four French work integration social enterprises and find that they used selective coupling to navigate competing demands. Another study of entrepreneurs from China, Russia, France, and the USA notes the influence of institutional complexity on venture growth (Batjargal et al., 2013).

To capture institutional complexity, we focus on two important aspects that researchers have noted have a significant impact on born global firm’s growth: international networks and initial public offering (IPO). First, networking competences to develop alliances and collaborative partnership with suppliers, distributors, and joint venture partners can assist born global firms to overcome resource constraints to achieve rapid growth internationally (Freeman et al., 2006). The network development necessitates internal firm resources and entrepreneurial orientation, that in turn, facilitate the process of capturing the network benefits, such as tapping new opportunities, enhancing competitive advantages and lowering uncertainty and risk exposure for business to business born global firms (Sepulveda and Gabrielsson, 2013). However, there exists the export manufacturers’ dilemma in international expansion, namely manufacturers need to develop stronger local market competence while minimising the cost of distributor opportunism simultaneously (Cavusgil et al., 2004; Wu et al., 2007). Hence, it is of significant importance to leverage experiential network knowledge to enhance the value of business relationship in the foreign market (Hohenthal et al., 2014).

Furthermore, the transnational entrepreneur can play a key role in driving growth by leveraging his or her knowledge of the global market. One study articulated strategic re-structuring of born global firms using outward and inward-oriented activity by highlighting the central role played by entrepreneur in driving born global firms strategy and growth (Freeman et al., 2013). Their exploration of the managerial mind-set of these smaller born global firms leads to the identification of four states of commitment to accelerated internationalisation by top management. Another study based on 107 Israeli born global firms indicates that internal factors, such as an entrepreneur’s market knowledge, can drive the long-term performance of born global firms (Efrat and Shoham, 2012). Understanding the global market and developing customer intimacy-based innovative products are associated with born global firms’ enhanced performance (Mort et al., 2012). Therefore, we argue that transnational entrepreneurs may leverage their bicultural experience in dealing with international distributors by building trust and using international experience.

IPO constitutes another important factor to institutional complexity, because IPO in foreign market encounter institutional environment that may differ extensively from firm’s home country institutional environment. The effectiveness of born global firms to navigate different institutional contexts affects their development and growth. IPO is an important milestone for firm growth, which arguably can be regarded as the indicator for firm maturity (Almor, 2013). One study found out that firms that possess financial, innovational, and managerial slack resources are sending a positive signal to potential investors regarding the quality of the IPO (Mousa and Reed, 2013). The challenges imposed by a transnational context require transnational entrepreneurs to be aware of diverse institutional, structural, and cultural factors, which can significantly affect born global growth. Consequently, the entrepreneur’s ability to navigate through competing
institutional demands can be crucial for born global firms’ growth trajectory. Therefore, we argue that transnational entrepreneurs can accelerate born global growth by their effective management of institutional complexity.

3. Research methodology

Research context
We chose born global firms in the Chinese solar PV industry as the context of our analysis. Although Chinese firms contribute significantly to the production side of the solar industry, global consumption is driven by developed economies, such as USA and Western European countries. Specifically, a major driver is the “feed-in tariff” available in Germany and Spain, which provides incentives for consumers to install solar panels on their houses (Haley and Schuler, 2011). China has become one of the most important players in the world for the solar PV industry. In 2009, it announced an ambitious goal of deploying 20 gigawatts of solar power by 2020, more than the available total global solar PV capacity in 2008 (Solar Plaza 2009). As with many high-tech products in the renewable energy industry, solar companies produce a knowledge-intensive standardised product for the global market. Considering that almost no domestic Chinese PV market exists, Chinese solar companies are good examples of born global firms, because they were created to address global markets and have done so since their inception.

We chose Jiangsu Province as our geographic focus, because it has a high concentration of solar PV manufacturers, and Suntech Power, our primary source, was founded in Wuxi City, Jiangsu Province. Jiangsu Province is host to more than 50 solar PV companies, 70 per cent crystalline cell producers and 30 per cent thin-film producers. In 2009, six solar PV companies from Jiangsu Province belonged to the top ten national cell production companies. Their combined total cell production was 2,142 megawatts, occupying some 54 per cent of nationwide capacity, 93 per cent of that in Jiangsu Province (Grau et al., 2012). Therefore, we selected four companies as our sample (see Table I) that largely represent the Chinese solar PV sector. They mainly produce solar cells and panels in the module-manufacturing phase. The four firms also support comparative purposes; they include born global firms founded by transnational entrepreneurs (Suntech and Canadian Solar (CSI)) and their counterparts founded by domestic entrepreneurs (Trinasolar and Solarfun). This comparative approach enabled us to isolate the role of transnational entrepreneurs in born global development.

Qualitative research methods
Scholars have emphasised the advantages of using a methodological pluralism approach in examining born global firms (Coviello and Jones, 2004; Leitch et al., 2010). The nature of our research questions suggests qualitative methods as the appropriate research methodology. We utilised a multi-method approach consisting of case studies (Eisenhardt and Graebner, 2007; Welch et al., 2011), storytelling (Gartner, 2007), and content analysis (Krippendorff, 2012). Finally, we sought to reveal the underlying mechanisms and social dynamics by using several complementary sources of data and methods of analysis (Vaara and Monin, 2010).

<table>
<thead>
<tr>
<th>Company</th>
<th>Founding year</th>
<th>Organisational type</th>
<th>Country of transnational entrepreneur</th>
<th>Production location</th>
<th>Growth Sales (£ bn)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Suntech</td>
<td>2001</td>
<td>Private</td>
<td>Australia</td>
<td>Wuxi</td>
<td>2.5</td>
</tr>
<tr>
<td>CSI</td>
<td>2001</td>
<td>Private</td>
<td>Canadian</td>
<td>Suzhou</td>
<td>1.3</td>
</tr>
<tr>
<td>Trinasolar</td>
<td>1997</td>
<td>Private</td>
<td>Canada</td>
<td>Changzhou</td>
<td>1.5</td>
</tr>
<tr>
<td>Solarfun</td>
<td>2004</td>
<td>Private</td>
<td>China</td>
<td>Qidong</td>
<td>1</td>
</tr>
</tbody>
</table>

Note: “Total sales in the 12 months 2010 December-2011 December
Furthermore, prior research has emphasised the need to adopt a process perspective when investigating entrepreneurship, to aid researchers in unpacking the complexities and dynamics that characterise entrepreneurial activities (Moroz and Hindle, 2012; Wright and Marlow, 2012). We suggest that adopting such a view, to investigate the growth of born global firms empirically, can contribute to the theoretical and empirical advancement of our understanding of firm growth.

Case studies and international marketing
Qualitative research method is valuable for theory development in the field of international marketing. As acknowledged by marketing scholars, the marketing practices in emerging markets may challenge the assumptions of received body of knowledge (Sheth, 2011). The international marketing strategy of emerging market firms might pursue different strategy against the conventional wisdom (Vrontis, 2003; Vrontis et al., 2009). Therefore, it is of significant importance to explore the emerging phenomenon and to examine the boundary conditions of extant theory when investigating emerging markets firms by using case studies (Siggelkow, 2007). A recent systematic review of qualitative international marketing focussed publications in International Marketing Review from 1990 to 2010 highlighted the value of qualitative research for advancing theory in the field of international marketing (Andriopoulos and Slater, 2013).

Narratives and storytelling interviews
As a research method, storytelling carries particular advantages for studying complex, dynamic organisations and management topics. Qualitative in-depth interviews with key actors can provide insightful information (Eisenhardt and Graebner, 2007), beyond what can be extracted from the documentary data. Storytelling interviews offer the possibility of uncovering hidden information. For example, one research project uses storytelling to examine the institutional change dynamics of an Israeli high-tech firm after the bubble (Zilber, 2006, 2011). The temporal dimension awaits in-depth empirical investigation in international entrepreneurship, particularly in the context of emerging economies (Kiss et al., 2012). In addition, we use the storytelling research method that is suitable to studying complex and dynamic organisation and global marketing topics (Liu Xing and Starik, 2012). Narrative and storytelling are both useful, effective methods to unpack contextual factors, thus contributing to the advancement of entrepreneurship research (Short et al., 2010).

Data collection and analysis
We collected our primary and secondary data as part of a broader research project on the Chinese solar industry, technology entrepreneurship, and institutions. We opted to focus on four born global firms that had reached maturity, as manifested by their overseas IPO. We collected the primary data through personal and professional networks and several cold calls based on desk research. In fall 2008, we interviewed three researchers working at various institutions in the USA and China as a pretest to refine research questions. From August 2010 to August 2011, we conducted face-to-face, in-depth interviews with high-tech solar entrepreneurs, managers, and directors from a range of energy associations and professional service firms.

Next, in September 2011, we conducted additional interviews at the 26th European PV Solar Energy Conference and Exhibition, an international solar PV trade fair and symposium held in Hamburg, Germany. In total, we conducted 32 in-depth interviews with solar entrepreneurs, industry association representatives, research institute scholars, and professional service firm managers. Throughout the data collection, we sought to discuss the interviews and observations that formed the basis of our data. This sharing process
allowed us to adjust our inquiry directions and hone interview techniques continuously. We ended the primary data collection when additional interviews did not engender significant new insights with respect to our research questions (Yin, 2003). Table II displays informants included in this study in a role-ordered matrix (Miles and Huberman, 1994).

The interviews were recorded and transcribed. We structured and analysed them using the software tool NVivo 9. During this process, NVivo 9 facilitated the organisation of the data and the process of data analysis to enhance the trustworthiness of qualitative research (Sinkovics and Alfoldi, 2012).

We used a semistructured guideline that consisted of three main sections: the institutional environment regarding energy policy, renewable energy in particular; the Suntech story and related anecdotes; and the regional policy on technology entrepreneurship. The interview questions were developed based on theoretical literature review, in particular the previous studies in transnational entrepreneurship, collaborative partnership, and born global firms. In addition, we also develop questions based on the contextual situation and industry specific factors, namely emerging economies and renewable energy industry. We drew the secondary data from archives such as company annual reports, media articles in national and international press, and governmental documents to triangulate our data analysis based on primary data collection. Most important, the annual reports of the four case firms from 2006 to 2011 were accessed through United States Securities and Exchange Commission and systematically analysed. Furthermore, we collected industry policy reports and regulatory documents from 1997 to 2010 related to renewable energy and solar PV at both regional and national levels. We used content analysis (Krippendorff, 2012) to evaluate these secondary sources.

4. Findings
We present our findings and report on the empirical evidence with a focus on the growth development of born global firms via collaborative partnership. First, we shed light on the role of the transnational entrepreneur on born global growth, according to technological knowledge, international knowledge, and social capital. Second, we analyse born globals’ responses to institutional complexity and elucidate how the transnational entrepreneurs managed institutional complexity to achieve born global maturity.

**The transnational entrepreneur’s role in born global growth**
As a high-tech sector, the solar PV industry involves advanced technological knowledge and complex manufacturing and production processes (Haley and Schuler, 2011). For example, to create the polysilicon production chain, various technology firms are required to cover the whole production spectrum, ranging from upstream to module manufacturing to downstream.

Our analysis shows that transnational entrepreneurs play a critical role in carrying the advanced technological knowledge needed for born global firm development. Australia’s advanced development in the solar energy sector has made it a major source of

<table>
<thead>
<tr>
<th>Informants</th>
<th>China</th>
<th>EU PVSEC, Germany</th>
</tr>
</thead>
<tbody>
<tr>
<td>Solar energy firm</td>
<td>11</td>
<td>9</td>
</tr>
<tr>
<td>Privately owned</td>
<td>(8)</td>
<td>(6)</td>
</tr>
<tr>
<td>State-owned</td>
<td>(3)</td>
<td>(3)</td>
</tr>
<tr>
<td>Energy research institute</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Energy association</td>
<td>2</td>
<td>2</td>
</tr>
<tr>
<td>Professional service firm</td>
<td>4</td>
<td>1</td>
</tr>
</tbody>
</table>

Table II. An overview of interview informants
technological knowledge. Solar born global firms are heavily influenced by Australian firms and research institutes through transnational entrepreneurs who carried the technology and know-how beyond geographical boundaries. One important example was Suntech Power, whose founder and chief executive officer (CEO) Dr Shi conducted research at the University of New South Wales in Australia and gained industrial experience by working for the Australian company Pacific Solar. Equipped with in-depth knowledge and rich experience in solar technology, Dr Shi founded Suntech in 2001 in Wuxi, China, and commercialised his solar energy technology.

Research has documented the significant impact of transnational entrepreneurs in high-tech industry development. The knowledge circulation of transnational entrepreneurs from Silicon Valley to periphery economies such as Israel and Taiwan has helped these economies become successful technology centres (Saxenian, 2007). One study on the emergence of the information and communications technology industry sectors in emerging economies underscores how returning entrepreneurs played an important role in the expansion and growth phase of the industry after indigenous entrepreneurs and policy makers had laid the groundwork for the industry (Kenney et al., 2013). Our analysis resonates with this line of argument, emphasising the role of transnational entrepreneurs in developing and growing born global firms in the solar PV industry.

The second important dimension is the international knowledge that the transnational entrepreneur possesses. Although local scientists and private entrepreneurs established the first few solar energy firms in China in the late 1990s, our analysis revealed that it was not until transnational entrepreneurs arrived that the Chinese solar PV firms realised the rapid growth path as born global firms. An early solar PV firm, Trinasolar, was founded in 1997, during which time the solar energy sector was merely stimulated by the central government’s policy push. The chair of China’s renewable energy industry association related:

In the [late 1990s], there was no market for solar panel. It was Chinese central government that urged using renewable energy to solve non-electrification issues in the remote areas. For example, the first such project, the “Brightness Project Program,” was launched in 1997 by the state, and Trinasolar was involved.

In addition, international organisations such as the World Bank and the United Nations collaborated with the Chinese government to initiate several flagship solar energy projects in China (Kirkegaard et al., 2010). Only a few solar PV firms existed in 1990s. Transnational entrepreneurs stimulated the creation of born global solar PV firms and consequently rapid development, due to the wide spread of international knowledge about the global market.

Tim, the founder of a privately owned PV solar firm, shared his reasons for choosing to enter the PV solar industry in 2006:

We are a private-owned family business specialising in mechanical equipment. We entered [the] solar sector mainly because of two reasons: (1) solar is an emerging industry with a promising future as demonstrated by Suntech and the global market, [and] (2) we are able to find qualified people. Suntech alike the Huangpu military college [Chinese version of West Point] in the PV solar industry offers [a] talent pool that we can recruit from.

Transnational entrepreneurs not only spread international knowledge about the global market but also generated a positive spillover effect on domestic firms, encouraging them to develop into global firms. In summary, transnational entrepreneurs and their international knowledge play a vital role in technology industries’ global expansion and make increasingly important contributions to economic growth and development.

The third important dimension in the development of born global firms is social capital (Coviello, 2006; Presutti et al., 2007). Although compared with domestic solar firms, transnational entrepreneurs may not have the local social capital to acquire resources, their international social capital can be leveraged (Liu Woywode and Xing, 2012). When there is
almost no market demand, government plays an important role in cultivating a new high-tech industry (Spencer et al., 2005). In the solar PV industry, even though no market demand existed in the early stage, transnational entrepreneurs convinced the local government to provide it with crucial resources. The case of CSI is a typical manifestation of how transnational entrepreneurs leverage government policy to develop born global firms. During the same time frame as Suntech, Mr Qu, the founder and CEO of CSI, led his solar energy team from Canada back to China in 2001. Although CSI was registered in Ontario, Canada, the production site was located in Suzhou City, Jiangsu Province. Mr Qu shared his strategy for receiving governmental support:

A solar company needs a large production site and infrastructure. When we decided to come back, we looked for the place that could offer good conditions. Finally, we chose Suzhou due to the infrastructure and investment atmosphere. The local government favours foreign direct investment (FDI), and we told them that we are a foreign firm and there was huge market potential for solar energy in the future. The government support helped us a lot, because we don’t have guanxi at our disposal.

Stories and narratives are leveraged by transnational entrepreneurs as effective tools to acquire resources and endorsement (Martens et al., 2007; Zott and Huy, 2007). Prospective market potential invites entrepreneurs and important stakeholders to collectively make sense of new technology and surrounding opportunities. Our analysis indicated that the government support helped compensate for the lack of social capital for transnational entrepreneurs in developing born global firms. We extend the line of argument of social capital for born global development (Zhou et al., 2010) by noting that transnational entrepreneurs can leverage their international connections in the development of born global firms.

**Born global responses to institutional complexity**

Our analysis indicated that transnational entrepreneurs’ response to institutional complexity can facilitate the rapid growth of the born global to maturity. We found that entrepreneurs were able to circumvent institutional complexity to their advantage.

The takeoff of the Chinese solar PV industry was driven by global demand. European countries had great need for solar energy as a direct result of policy incentives, such as the feed-in tariff in Germany. New installations of solar PV reached a global record of 7.2 gigawatts in 2009; Germany alone had 3.8 gigawatts of new capacity, which accounted for more than half of the global market (Kirkegaard et al., 2010). The founder of a solar equipment trading company explains:

The Chinese solar PV sector is like “two heads outside,” which are upstream and downstream. The upstream head outside is the ingot materials that manufacturers need to produce cell and panel. The downstream head outside of China is the demand. The Chinese players essentially play the role as manufacturer of cells and panels for the global solar energy market.

This global market demand as a key driver for born global firms’ rapid growth was manifested in the development trajectory of the international sales of the four companies we studied. As shown in Table III, the international market constituted the majority of total revenue for all four.

<table>
<thead>
<tr>
<th>Year</th>
<th>Suntech</th>
<th>CSI</th>
<th>Trinasolar</th>
<th>Solarfun</th>
</tr>
</thead>
<tbody>
<tr>
<td>2004 (%)</td>
<td>92.2</td>
<td>98.9</td>
<td>91.9</td>
<td>n/a</td>
</tr>
<tr>
<td>2005 (%)</td>
<td>75.0</td>
<td>97.2</td>
<td>96.9</td>
<td>79.8</td>
</tr>
<tr>
<td>2006 (%)</td>
<td>78.3</td>
<td>79.4</td>
<td>90.7</td>
<td>94.3</td>
</tr>
<tr>
<td>2007 (%)</td>
<td>98.1</td>
<td>97.8</td>
<td>97.9</td>
<td>91.6</td>
</tr>
<tr>
<td>2008 (%)</td>
<td>90.3</td>
<td>96.4</td>
<td>96.3</td>
<td>93.4</td>
</tr>
<tr>
<td>2009 (%)</td>
<td>95.5</td>
<td>95.9</td>
<td>97.1</td>
<td>95.3</td>
</tr>
<tr>
<td>2010 (%)</td>
<td>94.7</td>
<td>97.0</td>
<td>96.2</td>
<td>92.1</td>
</tr>
<tr>
<td>2011 (%)</td>
<td>88.2</td>
<td>93.2</td>
<td>92.9</td>
<td>90.7</td>
</tr>
</tbody>
</table>

**Table III.** International sales of total revenues

**Note:** Author’s analysis based on firm’s annual reports
Given the importance of the global market demand, born global firms encounter international distributors when they embark the internationalisation journey. Tom, senior manager of a major solar company, elaborated the driver for growth:

We sell our products outside of China primarily to distributors, such as solar distributors, engineering and design firms and other energy product distributors. In 2006, SolarWorld AG was the only customer whose purchases accounted for 10.0% or more of our total net revenues for the year.

Our analysis shows that solar energy firms work with a relatively small number of distributors that have particular experience in a given geographic or applications market segment. Therefore, dealing with international distributors effectively characterises the nature of rapid growth. Collaborative partnership with distributors requests the process of trust building and mutual understanding between cooperation partners (Cavusgil et al., 2004). Networking capability facilitates identification and exploitation of appropriate distributors. In so doing, born global firm international market performance can be significantly affected.

Transnational entrepreneurs can leverage their international experience in identifying and strengthening distributors. William, Marketing Director of pan-European market, shared:

We proactively expand our distribution channels by selectively adding distributors. In summary, we believe that our relationships with our distributors enable us to, firstly leverage the marketing and distribution and after-sales service capabilities of other companies, secondly explore opportunities for additional product development, last but not least more easily, quickly and cost-effectively enter new geographic markets, and attract new customers.

This shows the importance of collaborative partnership with distributors accelerated the born global firms’ growth. Our analysis extends the findings of born global firms as an appropriate and novel context to advance entrepreneurial marketing research (Mort et al., 2012). In particular, our study highlights the central role played by entrepreneur in driving born global growth. Comparatively, transnational entrepreneurs are better equipped with the international experience and knowledge to networking with distributors. Our results resonate with a recent study that emphasised the international experience of its key decision-maker in the internationalisation of SMEs (Child and Hsieh, 2014). Following Almor’s (2011, p. 203) definition of mature companies as “companies that started out as born global companies, and are currently traded on international stock exchanges”, we used overseas IPOs as an indicator of the maturity of born global firms. Transnational entrepreneurs’ understanding of institutional contexts facilitates born global maturity by addressing global markets while following the market function. Mr Qu, CEO of CSI, shared his thoughts:

To compete in the global marketplace, we have to follow the global “rules of the game.” Our international experience and understanding on the global market help us. For instance, during our IPO, we choose Nasdaq instead of [the New York Stock Exchange (NYSE)] because we [felt] that our high-tech profile and growth potential fit Nasdaq better.

Our analysis of primary data based on 32 interviews largely support Mr Qu’s statement: to a great extent, the transnational entrepreneur determines the rapid maturation of born global firms, specifically, those with overseas IPOs. Interestingly, there was an isomorphic effect among born global solar firms with respect to IPOs issued in overseas stock exchanges. Suntech’s IPO at the NYSE in December 2005 signified the first Chinese solar energy firm that went public in a leading overseas stock exchange. This landmark event stimulated other solar PV firms to initiate overseas IPOs. Moreover, a positive legitimacy spillover effect among born global firms can be observed in the response to the global capital market sentiment. Table IV notes the time and place of other solar PV firms’ IPOs.

The comparative analysis in Table IV highlights the variations among born global solar PV firms. Transnational entrepreneurs possess technological knowledge, international experience, and international social capital. In comparison, domestic entrepreneurs are
relatively lacking in terms of advanced technological knowledge and international experience. Therefore, recruiting talented employees from transnational entrepreneur-led born global firms could help domestic entrepreneur-led born global firms compensate. Such employee mobility and resource interaction affects the development and growth of born global firms.

In responding to institutional complexity, transnational entrepreneurs’ cognitive capacity to comprehend global demand and market function facilitates the rapid growth and maturity of born global firms. According to the two aspects of institutional complexity, building overseas distributors network require the entrepreneurs of born global firms to leverage the international experience to achieve foreign market familiarity (Schwens and Kabst, 2011). Furthermore, the individual experience (Jones and Casulli, 2014) of transnational entrepreneurs is largely attributed to the rapid growth of born global firms by collaborating with distributors. Our findings lend support to a previous study that compares international new ventures, exporters, and domestic firms and concludes that managerial cognition affects a new venture’s speed of internationalisation (Acedo and Jones, 2007). From foreign IPO perspective, Suntech’s early born global overseas IPO generated a positive legitimacy spillover effect on subsequent overseas IPOs. Hereby, the transnational entrepreneurs pave the way by setting up a growth model that can be emulated by follow-up domestic entrepreneurs in pursuing rapid growth path. Therefore, we argue understanding and responding to institutional complexity such as the global market demand for export and the capital market, drives the rapid growth of born global firms. Adhering to the global market rules highlights the importance of born global firms responding to institutional complexity.

5. Discussion

A multilevel model for born global firms’ growth to maturity

Figure 1 presents our multilevel model, which shows the influences of institutional complexity, collaborative entry mode, and the transnational entrepreneur on a born global firm’s growth. We have adapted the analysis framework for the growth of maturing born global firms that are jointly influenced by institutional complexity and the transnational entrepreneurs’ responses to competing institutional demands. From a process perspective, born global firms are founded by transnational entrepreneurs who have technological knowledge and the goal of commercialising the technology. If the market potential exists, transnational entrepreneurs can navigate through institutional complexity to take advantage of it. Given the nature of born global, born global firms largely rely on distributors to reach out the global market. This growth pattern can be named as growth by collaborative entry mode.

<table>
<thead>
<tr>
<th>Case</th>
<th>Company name</th>
<th>Technology knowledge</th>
<th>International experience</th>
<th>Social capital</th>
<th>Institutional complexity</th>
<th>Born global maturity IPO</th>
<th>IPO time</th>
<th>IPO place</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Suntech</td>
<td>Transnational</td>
<td>Australia</td>
<td>International</td>
<td>Gov. invest FDI case</td>
<td>First overseas IPO</td>
<td>2005 Dec</td>
<td>NYSE</td>
</tr>
<tr>
<td>2</td>
<td>CSI</td>
<td>Transnational</td>
<td>Canadian</td>
<td>International</td>
<td>FDI case</td>
<td>First Nasdaq IPO</td>
<td>2006 Nov</td>
<td>Nasdaq</td>
</tr>
<tr>
<td>3</td>
<td>Trinasolar</td>
<td>Local scientists</td>
<td>Lack</td>
<td>Local</td>
<td>Gov. project –</td>
<td>Follow-up IPO</td>
<td>2006 Dec</td>
<td>NYSE</td>
</tr>
<tr>
<td>4</td>
<td>Solarfun</td>
<td>Spin-over</td>
<td>Lack</td>
<td>Local/ international</td>
<td>–</td>
<td>Follow-up IPO</td>
<td>2006 Dec</td>
<td>Nasdaq</td>
</tr>
</tbody>
</table>

Notes: aCases 1 and 2 are transnational, whereas cases 3 and 4 are domestic; bglobal market demand and market function

Table IV. Comparative analysis of entrepreneur and institutional complexity’s influences on born global development
When the global market demand emerges, established born global firms can quickly seize the looming market opportunity by leveraging transnational entrepreneurs’ international experience. In nurturing the rapid maturation of born global firms, the international social capital of transnational entrepreneurs plays a crucial role in speeding this process through collaborative partnership. Market function takes over as the major determinant during the growth phase. The global market function and market demand become the major determinants as the born global firm reaches maturity. During the growth process, collaborative entry mode plays a crucial role to speed up the born global firms’ growth to maturity. As illustrated in Figure 1, collaborative partnership helps transnational entrepreneurs comprehend the institutional complexity from partners, such as distributors. The collaborative entry mode underpins the growth process of born global firms’ inception through to maturity. The IPOs in overseas stock exchanges illustrate that the transnational entrepreneurs fully comprehended the market dynamics and “rules of the game” in the global market. Consequently, overseas IPOs can accelerate the rapid growth path of born global firms. Our model lends support to the study on the emergence of information and communication technology industry sectors in emerging economies, which notes that overseas entrepreneurs play an important role in the expansion phase of the industry after indigenous entrepreneurs and policy makers had laid its groundwork (Kenney et al., 2013).

Our model describes the challenges born global firms face and emphasises the importance of managing institutional complexity as maturing born global firms enter the rapid growth path. Transnational entrepreneurs, as bicultural individuals with complex cognitive capacity (Zahra et al., 2005), are able to accommodate the sophisticated institutional contexts – specifically, the crucial areas of global market demand. More important, the process model underscores the dynamic responses of transnational entrepreneurs to institutional complexity. When operating in the global market, the global “rules of the game” have important bearing on the growth path of born global firms. When entering the maturity phase, born global firms participate in the worldwide capital market. Overseas IPOs are a manifestation of the maturity of born globals. In essence, the dynamic development trajectory of born global firms requires that transnational entrepreneurs be able to discern the differences and leverage the institutional complexity accordingly. Therefore, our model elucidates the multilevel interactions, namely, the institutional level influences on an organisational-level born global firm’s development through individual-level transnational entrepreneurs.

**Theoretical implications**

Our findings contribute to the increasing body of research on how born global firms grow and mature (e.g. Almor, 2011) by: taking a process perspective from born global growth to
maturity, and examining the role of the individual entrepreneur in the growth via collaborative entry mode and responses to institutional complexity of the born global. Our findings reveal that the transnational entrepreneur’s ability to navigate and leverage institutional complexity is a key factor in determining the growth and maturity of born global firms. Our research also closely examines individual entrepreneurs (Yeung, 2002) and their role, knowledge, network, and cognitive ability. Our research contributes to transnational entrepreneurship by articulating the biculturalism and cognitive ability of transnational entrepreneurs that enables them to circumvent constraints and overcome institutional complexity. Our findings suggest that highlighting entrepreneurs when examining the born global phenomenon can engender a nuanced, contextualised understanding of the growth and maturity of born global firms.

Our research contributes to the literature stream on collaborative entry mode by focusing on the born global firms’ growth and the influence of collaborative entry mode on growth. Building upon the most recent collaborative entry mode studies, our study extends this research stream by investigating the born global entrepreneurial context and how collaborative entry mode can be conducive in reducing the resource constraints of born global firms. Our findings lend support to a recent study on collaborative partnership for SMEs from advanced economies venturing into emerging economies (Stokes et al., 2016). Importantly, our study on the role of transnational entrepreneurs in navigating through the institutional complexity for accelerating firms’ growth adds useful theoretical articulation and empirical support from a behavioural perspective. Importantly, our qualitative research aims to generate theoretical generalisability (Tsang, 2014) that can shed some light on future scholarly investigation by delivering theory building endeavour. Theoretical generalisation carries the explanatory power of being across the empirical and theoretical levels (Tsang and Williams, 2012).

In addition, our research makes a contribution to broader literature on institutional complexity by empirically examining individual responses and strategies for coping with multiple institutional logics. Our findings add to understanding of the notion of “institutional logics as strategic resources” (Durand et al., 2013). Most institutional logic literature discusses organisational responses (Greenwood et al., 2011); very few studies empirically investigate the individual’s response. Therefore, our research is among the first to identify the role of the transnational entrepreneur’s response to institutional logics in the context of the born global phenomenon. Moreover, we provide empirical evidence that the transnational entrepreneur can manage institutional complexity in born global development. Our findings emphasise the joint influences of individual and institutional level factors in enabling the growth of born global firms as they mature.

Recent research has begun to emphasise the importance of multicultural employees and their contribution to organisations (Fitzsimmons, 2013). Our study extends this line of reasoning by offering empirical evidence and a contextualised understanding of multiculturalism in examining transnational entrepreneurs and born global development. By examining the individual entrepreneur’s role and the responses of the transnational entrepreneur to institutional complexity, we extend prior work on born global growth and provide a framework within which future researchers can extend the body of knowledge on born global growth. Our study reveals the importance of transnational entrepreneurs in managing the institutional complexity by leveraging their bicultural advantages and complex cognitive capabilities.

Managerial implications
This study has several implications with respect to international business and policy making. Transnational entrepreneurs who found born global firms in the high-tech sector have become an emerging force in global competition against multinational enterprises.
These entrepreneurs’ global network, industry knowledge, and international experience enable them to move technology and know-how across geographical boundaries (Drori et al., 2009). In capitalising on the knowledge-intensive, high-tech market globally, transnational entrepreneurs become disruptive forces that leverage emerging economies’ advantages, beyond cost leadership. Therefore, we recommend that both incumbent and entrepreneurial firms in developed economies collaborate with transnational entrepreneurs in various business areas. As our findings indicate, transnational entrepreneurs are prepared to utilise collaborative partnerships to accelerate born global firms’ growth. Bearing in mind that transnational entrepreneurs follow the global rules of the game, industry firms may be able to cooperate on product and marketing development, and professional service firms can offer services to expand born global firms further.

Regarding policy recommendations, in the aftermath of the 2008 economic crisis, the worst depression since the 1930s, governments have begun to directly interfere in the economic sphere, whether reluctantly or intentionally. Profiting from such interaction requires some flexibility in the political arena. It is a daunting challenge to navigate the cross-sector partnerships (Koschmann et al., 2012). Transnational entrepreneurs’ skill in doing so, particularly in interaction with government, highlights how an entrepreneurship policy might be nurtured amid the migration of institutional logic from FDI driven to talent oriented. The entrepreneurial policy in attracting returnee talent to found entrepreneurial ventures and born global firms delivered initial success in managing global talent (Wang and Liu, 2016). Our study can shed some light on effective policy making and implementation for other countries to initiate entrepreneurship policy and cultivate new high-tech industries that eventually could change the global competitive landscape.

**Limitation and further research directions**

As with any study, our study has several limitations. First, it is an explorative study whose purpose is to answer the “how” question. Thus, generalising our findings must be approached with caution. Second, our empirical setting is born global firms in China, a transition economy with continuing change and influx from an institutional perspective. Researchers could further validate our findings in other contexts, both emerging and developed economies, following the comparative international entrepreneurship approach (Terjesen et al., 2016). Third, though we believe the explanatory power of our multilevel model, which captures cross-level effects and joint influences, is strong, another multilevel modelling approach (Shepherd, 2011) might be used to test our framework. As for future research directions, we encourage scholars to empirically test our conceptual model. Future researchers might operationalise our model via empirical research by measuring the degree of institutional complexity and influence of collaborative entry mode on born global firms’ growth.

We took a process perspective by examining the growth and maturity of born globals through collaboration; our focus on the role of transnational entrepreneurs highlighted entrepreneurs’ sensitivity to institutional context along the growth trajectory. By focusing on the relationship between contexts and entrepreneurship (Autio et al., 2014), our conceptualisation might be further advanced if entrepreneurial behaviours from a strategic perspective were further integrated, in line with recent encouragement that strategic agility (Weber and Tarba, 2014) might offer the impetus in the pursuit of a high growth pathway for born global firm. Taking our study as a departure point, we encourage scholarly inquiry to pay close attention to micro-processes, which could further advance both academic scholarship and management practice and facilitate a nuanced, contextualised understanding of the complexity of the born global phenomenon.
6. Conclusion
This paper addresses how transnational entrepreneurs grow born global firms to maturity. We illustrate transnational entrepreneurs’ responses to institutional complexity. Our study underpins the idea that coping with institutional complexity is important for born global firms along a process perspective. In our framework of growth development for maturing born global firms, the dynamic process is triggered by the interaction between transnational entrepreneurs and institutional complexity. We thus highlight the importance of transnational entrepreneurs who grow born global firms by navigating and leveraging institutional complexity. The case studies and narrative evidence of born global solar PV firms support our conceptualisation and argument.

Our study contributes to the understanding of the growth and development of born global firms in several ways. First, we shed light on the important role of transnational entrepreneurs throughout the growth and development stages of born global firms via collaborative entry mode. In particular, our findings support the importance of the transnational entrepreneur in growing born global firms and offer a nuanced understanding of the influences of institutional complexity and transnational entrepreneurs’ responses to them. Second, we provide insights into the different roles of, as well as the interplay between, transnational entrepreneurs and institutional complexity — namely, transnational entrepreneurs navigating through and leveraging institutional complexity to develop born global firms.

We hope this study inspires scholars to further investigate this line of inquiry on transnational entrepreneurs and born global firms. In particular, our tentative multilevel model is an attempt to elucidate the interplay across multiple levels and serves as a departure point for further theoretical refinement and empirical analysis. Furthermore, transnational entrepreneurs’ technological knowledge, know-how, and international experience offers strong collaboration opportunities with both new ventures and incumbent firms in today’s fast-changing, hypercompetitive, and interconnected world.

References


The role of transnational entrepreneurs


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Bars to enter in foreign markets: evidence from SMEs in emerging market

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Abstract

Purpose – Foreign market entry is considered as a key strategy to grow and survive over longer period of time for small and medium enterprises (SMEs). The decision to enter a foreign market is not a straightforward story. Considering resource limitation, SMEs need to analyse the key barriers to entry in foreign markets very carefully. The purpose of this paper is to identify these barriers for the SMEs in developing country.

Design/methodology/approach – This study has used primary data collected through questionnaires from 212 Bangladeshi SMEs. A mixed method data analysis technique is used to analyse the firms both from micro- and macro-levels. Following the running example-based case study approach, this study has developed and validated a partial least square-based structural model to assess the key barriers to entry in foreign markets.

Findings – This study has identified the key socio-economic barriers faced by the SMEs in a developing country to enter in foreign markets. It has successfully framed the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs as a second-order hierarchical model.

Originality/value – It is often believed that foreign market entry is more affected by social barriers as explained by the existing theories including the Uppsala model. This study, however, revealed that the international market expansions of SMEs in developing countries are more sensitive to the economic barriers.

Keywords Bangladesh, Emerging markets, Internationalization, Market entry,
Small-to-medium-sized enterprises

Paper type Research paper

Introduction

The economic development and sustainability of growth both for developed and developing countries depend primarily on small and medium enterprises (SMEs), which play a key role in generating income, creating employment opportunities and even reducing poverty (Ayyagari et al., 2011; Cravo et al., 2012). Therefore, the factors that hinder or limit the growth of SMEs are considered as the most significant constraints for the economic development for those countries (Olawale and Garwe, 2010; OECD, 2004; Syed et al., 2012). Common barriers to growth of SMEs may include limited access to finance, lack of experience, shortage of skill, competition, inability to use advanced technology, improper record keeping and lack of knowledge. Due to these barriers, a large number of SMEs fail to grow or even survive regardless of the size of economy (Hubert et al., 2013). For example, the studies on the SMEs from the context of USA, UK and Australia identified that almost 80-90 per cent of SMEs fail within the first ten years due to the external barriers to growth and the lack of positive entrepreneurship traits, such as lack of commitment, limited knowledge, deficiency of willingness and absence of flexibility (Zimmerer et al., 2008; Hodges and Kuratko, 2004; Khalique et al., 2011). Similarly, the failure rate of SMEs in Malaysia is roughly 60 per cent (Ahmad and Seet, 2009), in South Africa 75 per cent.
Barriers to enter in foreign markets

(Fatoki and Asah, 2011) and in Pakistan 90-95 per cent (Khalique et al., 2011). There are a number of different strategies that SMEs are following in order to avoid failure, for example, geographical expansion both at domestic and international level, introducing new related and unrelated products, product improvement, offering customer loyalty programme and taking initiatives for the acquisition of new clients (Navarro et al., 2012). Among these, geographical expansion in overseas markets has been pointed out as one of the most popular options for SMEs to enjoy both short- and long-term economic benefits (Peng and Delios, 2006; Pangarkar, 2008). However, foreign market entry is prone to a number of barriers that need careful attention (OECD, 2006; Pangarkar, 2008; Sokfa and Zimmermann, 2008). For example, Musteen et al. (2010, p. 197) have highlighted the inability of SMEs to cope with the additional risk (such as, maintaining international standards, following the legal procedures both at home and abroad, facing the international competition, etc.) in the overseas markets due to insufficient resources. These additional sources of risk make the SMEs’ foreign market entry more challenging.

The key motivation of this study is to investigate the barriers that SMEs face while trying to enter into foreign markets. Although previous studies have identified barriers of internationalisation for different countries, they may not be applicable to the developing economies as the majority of those studies are focussed on the North American or European SMEs (Bruton et al., 2008). Socio-economic aspects of the developed countries are different from the developing countries. Therefore, generalising these developed countries’ experience to deal with the developing countries situation would be misleading (Milanzi, 2012). Therefore, it is imperative to conduct further research on SME foreign market entry barriers using samples from developing countries. Even generalisation of entry barriers among the developing countries may sometimes be difficult as Leonidou (2004) has pointed out that two businesses operating in two different developing countries may face different types of barriers to entry into foreign markets. This study collected data from a set of SMEs in Bangladesh. Selection of Bangladesh as the sample developing country is due to its dependence on SMEs as a major source of economic growth. Ahmed et al. (2011) reported that 82 per cent of the Bangladeshi labour force is working in different SMEs across the country. Bangladesh has huge potential to become one of the leading exporters of products mainly produced by SMEs and the economic growth of the country is comparable to India and China (Ahmed et al., 2011). O’Neill (2013) pointed out the potential of Bangladesh to become world’s leading emerging market. However, due to lack of appropriate empirical research to identify relevant international market entry barriers for the SMEs in Bangladesh, potential entrepreneurs from this country might have incorrect or insufficient information about the potential challenges to face while entering into foreign market. Therefore, identification of the international market entry barriers for Bangladeshi SMEs in this study is certainly a timely response. Moreover, the foreign market entry barriers identified in many of the previous studies might be inconsistent due to the use of relatively weak methodologies (Arteaga-Ortiz and Fernández-Ortiz, 2010). Building on previous studies, a model on the factors that hinder the SMEs to expand internationally has been developed and validated in this study.

Literature review

Foreign market entry pathways

Foreign market entry is a dynamic international marketing paradigm whose applications are constantly expanding (Hallböck and Gabrielsson, 2013). The extant literature identifies various entry modes with diverse dimensions based on the backgrounds, assessment capabilities and market orientations of owners and managers (Prange and Verdier, 2011; De Clercq and Zhou, 2014). In addition, the timing of entry, business environments and non-equity forms of control also play a pivotal role in the selection of market entry strategy.
Although there are number of studies, the understanding on different entry modes and their implications are still under explored in comparison to the significance. The choice of entry mode plays a very important role in determining the future international market operations of the firms (Brouthers, 2013; Casillas et al., 2012). Therefore, owners and managers need to be responsive about the different entry modes available to the firms in the context of the operating environment (Javalgi et al., 2011). In the context of SMEs, there are three dominating pathways – steady way to enter in foreign markets as explained by the Uppsala model, rapid way to enter in foreign markets as clarified by born global and radical but late as evidenced by born-again global firms (Olejnik and Swoboda, 2012).

Steady or gradual pattern to enter in foreign market is applicable both for MNEs and SMEs (Sui et al., 2012). According this pattern of foreign market entry, firms start their business in their home country and then gradually expand to the international market in a very sequential manner (Vahlne and Johanson, 2013). During the growth stage, firms aware of some particulars of a foreign market that may have an impact during and after entering in the foreign markets. These factors are related to the culture, languages, political systems and level of industrial development (Johanson and Wiedersheim-Paul, 1975; Yeoh, 2011; Papadopoulos and Martin, 2011). A rapid way to enter in foreign market or born global or global start-up is a more recent approach of international marketing theory which has been studied for over a decade and is still evolving (Efrat and Shoham, 2012). This approach aims to facilitate firms entering into international markets or even the global market right from their birth and does not seem to follow any kind of stages. Various terms are used to describe this internationalisation process by the scholars. These are “born global” (Hashai, 2011; Cannone and Ughetto, 2014), “global start-ups” (Oviatt and McDougall, 1995), “no pattern” (Mockaitis et al., 2006), and “international new venture” (Coviello, 2006; Ripollés et al., 2012). In some research this is also regarded as “another type” of SME internationalisation (Larimo and Rumpunen, 2007). Another pathway to enter into foreign markets particularly suitable for SMEs is established by Bell et al. (2001). According to this pathway, some companies suddenly enter foreign markets after becoming well established in the home market. Due to a sudden incident, event or resource, a firm can become committed to entering foreign markets. This pathway is introduced as born-again global as the firms normally get this change through the changes in ownerships and managements (Olejnik and Swoboda, 2012). In fact, the condition of the markets (stable or unstable) might also influence the entry modes significantly (Figueira-de-Lemos and Hadjikhani, 2014; Alexander et al., 2011). In summary, some SMEs enter in foreign market in a gradual process, some other firms become global from the very beginning and the other types of firms are operating in the home market for long time but enter in the foreign market all of a sudden.

**Barriers to enter in foreign markets**

**Economic barriers.** Economic barriers are the institutional barriers in general and political and legal constraints in particular. Politics is the combinations of effort by the government and other institutions, fields, and special interest groups to give future directions to the country considering the value and interest that people hold in addition to carrying on governmental and state affairs (Daunton, 2011). Generally, the government of a particular country develops the rules and procedures for the day to day life through political and legal system. Business is considered as the integral part of this daily life. Therefore, business could not be conducted avoiding the political and legal system (Sethi et al., 2012). There are many ways that the political and legal environment might influence the business environment. First, political and legal systems of each and every country influence the business environment directly by changing existing (or by introducing new) policies,
regulations and laws. Second, government determines the fiscal and monetary policies that directly influence the way of doing business. Finally, the situation of political stability has great impact on the ease of doing business. Political forces might assist the internationalisation of firms, such as, removing the barricades to international trade or even by setting up export processing zone where the firms can produce and trade under favourable condition. Similarly some of the political and legal factors might also become barriers to entering foreign markets, such as, political instability, legal procedural barriers, corruptions and inadequate legal supports (Bhatti and Awais, 2012). Therefore, the decision to go for international market expansion should only be taken after understanding the unseen nature of political and legal environment of the target country.

**Social barriers.** The social and cultural environment includes the attitudes, tastes, beliefs, behaviours, lifestyle and relationships among the people of a particular society in their day to day life. Business activities are to meet the demands of the people, whereas, the demands of the people are based on these social and cultural aspects. In fact, business activities are shaped by culture and society. In the case of international business activities, the role of the social and cultural environment is more predominant. By crossing the national boundary through internationalisation process, firms are involved with a different culture and society. Although most of the theories of internationalisation raised these cultural issues as a dominant factor for internationalisation (Ellis, 2011), the Uppsala internationalisation model sheds light on the term “psychic distance”. According to Johanson and Vahlne (1977, p. 24), psychic distance is “the sum of factors preventing the flow of information from and to the market”. In further explanation of the psychic distance, they have given examples, such as, language, education, culture, political factors, business practices and industrial development-related distances. In fact, according to the Uppsala model of internationalisation, culture is the part of psychic distance. Previous studies identify a number of social and cultural factors working as the barriers of internationalisation to the firms including different socio-cultural traits, verbal and non-verbal language differences, different habits and attitude of foreign customers and clients (OECD, 2006). Similarly, Barkema and Vermeulen (1997) reported cultural distance as one of the most influential barriers of internationalisation. Rothaermel et al. (2006) also identified a strong connection between cultural dimension and internationalisation.

**Conceptual model and hypotheses development.** Based on the extant literature on the socio-economic barriers to enter in foreign markets, this study proposes the research model shown in Figure 1.

In Figure 1, there are seven hypotheses that are formed based on the factors found in literature on the internationalisation of SMEs. Socio-economic barriers to entering foreign markets for Bangladeshi SMEs are classified into two major categories: social and economic. Out of seven hypotheses, three hypotheses are related to the social and four hypotheses are related to economic barriers for SME internationalisation.

Language is the medium of communication between two or more individuals or firms by using arbitrary signals, such as, voice, writing, signs, etc. Inability to communicate properly may hinder the overseas business prospect. By crossing national boundaries, SMEs have to be active in an unknown and often in transparent economic, political and cultural environment, which is a big impediment to SMEs internationalisation (OECD, 2006). In addition to the language barrier, a common socio-cultural barrier faced by SMEs during internationalisation is different social approaches (Barkema and Vermeulen, 1997). In fact, there is no denying in the argument that the social approach may vary from one country to another. Although it is generally agreed that the different social attitudes have impacts on business, nature of impact (positive or negative) is ambiguous. While these studies suggested negative impacts of different socio-cultural approaches in international business, others (Krishnan et al., 1997; Morosini et al., 1998) have claimed that the socio-cultural
diversity may also be a source of value creation. Some other studies pay no attention to a different social approach as being a key barrier to internationalisation of SMEs (Okpara and Kabongo, 2010). Considering the important link between language difference and a different social approach with social (and cultural) barriers to internationalisation, this study proposes the language difference and different social approach as functions of social barriers to entering foreign markets in the context of developing countries’ SMEs. On the basis of above discussions, the following hypotheses are proposed:

H1. Language difference as a factor of social barriers and foreign market entry of SMEs will not be independent from one another.

H2. Different social approach as a factor of social barriers and foreign market entry of SMEs will not be independent from one another.

Research and development (R&D) is the initiative of discovering new understanding about a product, service or process. While the ability of a firm to increase technological development is considered as an important dimension of competitive advantages, R&D is viewed as the key source of such ability (Yam et al., 2011). Considering the investment in R&D as the investment in knowledge, public and private R&D investment is increasing. While a larger part of public R&D investment is spent by developed countries, the majority of the private R&D investments are done by the large and established companies. Therefore, the SMEs from developing countries (such as Bangladeshi SMEs) may find it difficult to face global challenges due to the lack of better R&D facilities. Due to the lack of R&D facilities, many organisations find it difficult to compete internationally (Tseng et al., 2009). In contrast, some other studies overlook the lack of R&D facilities as the key barriers of internationalisation of SMEs (Gunaratne, 2009; Okpara and Kabongo, 2010). Considering the important link between lack of R&D facilities with social (and cultural) barriers of internationalisation, this study proposes lack of R&D facilities as a function of technological and infrastructural barriers of internationalisation in the context of developing countries’ SMEs. In the light of the above discussions, the following hypothesis is proposed:

H3. Lack of R&D as a factor of social barriers and foreign market entry of SMEs will not be independent from one another.
Impacts of political instability are a major concern for business activity particularly in the emerging economies. According to Luo and Tung (2007), political instability is the common feature of developing countries. Due to this institutional constraints, the majority of the business organisations, particularly the SMEs from the developing countries, are not achieving adequate opportunities from foreign markets (Zeng et al., 2008). Al-Hyari et al. (2012) also found the negative relationship between political instability and international business performance. Political instability of the country may also increase the costs of doing business and therefore create competitive disadvantages both for local and international firms. Due to these negative outcomes (e.g. higher risk, additional cost, market fluctuation and competitive disadvantage), some of the investors may become demotivated from investing in countries which have political instability (Lu and Beamish, 2001). In contrast, some other studies ignore political instability as the key barriers to internationalisation for SMEs (Okpara and Kabongo, 2010). Therefore, the influence of political instability as the barrier to internationalisation is still an unsettled issue. Considering the important link between political instability and political (and legal) barriers of internationalisation, this study posits political instability as a function of economic barriers in the context of developing countries’ SMEs. In the light of above discussion, it has been hypothesised that:

H4. Political instability as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another.

Each and every country has some legal systems both for the people and the organisations. To carry on life or business, people need to go through these legal procedures, such as registering property, filing tax, applying for permission to start a business and carrying on the business legally. Based on the number, days and requirements of these procedures, ease of doing business is examined. Ease of doing business varies from country to country due to these legal processes. In Bangladesh, it takes a minimum of six working days to get the trade licence from the local government authority, whereas it takes one to three days in some developed countries. In the case of international business, firms may need to face additional legal restrictions than the domestic firms, such as, currency restrictions, quotas or tariffs. Based on the country of origin of the foreign partners, additional formalities may also need to maintain, for example, product standards, compliance procedures, health and safety requirements, and patent and trademark issues (OECD, 2006). Despite the importance, legal procedural complexity has not been considered as a key barrier to SME internationalisation (Okpara and Kabongo, 2010). Thus, the impact of legal procedural complexity as the barrier of internationalisation is still an under explored issue. Considering the important association between legal procedural complexity and political (and legal) barriers of internationalisation, this study proposes legal procedural complexity as a function of economic barriers in the context of developing countries’ SMEs. On the basis of the above discussions, it has been hypothesised that:

H5. Legal procedural complexity as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another.

Express service is an accelerated service where the customers or the clients receive the delivery of goods or services faster than the normal time. Considering the value of time, express service is getting popular both in personal and professional levels day by day. Due to better financial ability, larger firms may use express service facilities in their day to day business operations. However, resource constraint may limit SMEs’ ability to use this service and this in turn will slow down the process of internationalisation for SMEs. OECD (2006) has reported that the number of days required for developing countries to finish the process of either export or import is three times higher than the requirement of developed countries.
Despite the critical role of express service to facilitate internationalisation of SMEs, earlier studies failed to identify this as a key barrier for the SME internationalisation process (Okpara and Kabongo, 2010). In the light of above discussion, it has been hypothesised that:

\[ H6 \]. Lack of express service as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another.

Corruption is the abuse of public power for private benefits. Common forms of corruption are bribery, extortion, fraud, embezzlement, nepotism, cronyism, appropriation of public assets and property for private use, and influence peddling (Myint, 2000). Any of these types of corruption may occur at any time (such as, day, night, evening or even weekends), at any level (e.g. top level and mid-level or even grass root level), in any sector (such as, sports, education, banking, health care) and anywhere. Corruption is not only costly for the business and people, but also it can be arbitrary and unpredictable. In case of SMEs, corruption is considered as a significant political and legal barrier in a number of countries (Okpara and Kabongo, 2010). Although the negative relation between corruption and growth of SMEs is identified both from developed and developing countries, developing countries are mostly affected by the presence of corruption (Okpara and Kabongo, 2010). On the basis of the above discussions, it has been hypothesised that:

\[ H7 \]. Corruption as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another.

**Research methodology**

This study has proposed a hierarchical reflective model on the barriers to entering foreign markets for Bangladeshi SMEs and it formulates a theory that is empirically testable. An empirical survey was carried out because this study also attempts to measure a casual network relationship as proposed in Jenkins (1985) on the barriers to entering foreign markets for Bangladeshi SMEs. To carry on the empirical investigation, cross-sectional survey technique was applied to extract views from the respondents only once (Malhotra, 2008). To achieve the maximum response rate a postal survey was applied rather than a telephone, e-mail or online survey (Malhotra, 2008).

**Running example-based on case study**

In addition to macro-level quantitative analysis, this study has also used qualitative case study at the piloting stage as the context can play a crucial role in understanding the socio-economic phenomenon. This approach has facilitated both contextual understanding and causal explanation which is not otherwise offered by the structural equation modelling (SEM). One firm was selected based on the definition of SMEs in Bangladesh and their engagement in international market (Table I).

Imperial Collection is one of the leading, oldest and reputed buying agents in knit items exporting agency in Bangladesh. The firm was very innovative at the early stages through

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Imperial collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Year founded</td>
<td>1990</td>
</tr>
<tr>
<td>Owner/CEO</td>
<td>Hemayet Uddin</td>
</tr>
<tr>
<td>Number of employees</td>
<td>5-10</td>
</tr>
<tr>
<td>Business type</td>
<td>Trading company, buying office, agent</td>
</tr>
<tr>
<td>Foreign market activity</td>
<td>Exporter of knit items</td>
</tr>
<tr>
<td>Main market/source</td>
<td>North America and EU</td>
</tr>
</tbody>
</table>

Table I. Basic information of the case firms
Barriers to enter in foreign markets

using ICT facilities but lack of further R&D culture is visual. The firm positioned itself as an experienced trading agent than innovative as reflected in the quote below:

We have the pleasure to introduce ourselves as a leading, oldest and reputed buying house of Bangladesh, established in the year 1990 (Owner/Imperial Collections).

Political instability and legal procedural barriers delay the process of production and shipments of goods usually in Bangladesh. Firms normally keep multi-site production plants to carry on production in one place while there is apolitical unrest in another factory area. The firms confirm to provide the additional monitoring to ensure timely shipment of products to foreign markets as expressed below:

We monitors to our buyers regarding production status from starting to end. We have sister concern of T-shirt factory as well as good contacts and control over many factories in Dhaka, Naryanganj and Chittagong (Owner/Imperial Collections).

Lack of express service as an economic barrier to enter in foreign market was also reflected by the firm’s ability to maintain timely shipments with foreign buyers. The firm and the industry always concern about this as expressed by the owner:

Although we are bringing huge foreign earnings from abroad, government seem non cooperative in need of express service as it is available in other countries (Owner/Imperial Collections).

Language difference and different social approaches are considered as the key barriers to enter in foreign markets in many theories including the Uppsala model. The firm used middleman or negotiator to overcome this problem. As the owner put it:

We employ commission agents to overcome language issues and social problems in foreign countries particularly in some EU countries except UK (Owner/Imperial Collections).

**Questionnaire survey.** Data were collected from four major divisions of Bangladesh – Dhaka, Khulna, Chittagong and Rajshahi from July/2011 till September/2011. For data collection, 250 questionnaires were distributed to each division following cluster sampling technique. From each division, districts were selected and from each district, villages or wards of the four major city corporations were selected, and, finally, international SMEs were selected from each villages and wards. To ensure the equal opportunity to be selected, systematic random sampling technique was applied. Population for the survey was defined as the SMEs doing international business. Out of 1,000 questionnaire sent, 219 responses were received. Among the 219 received questionnaires, seven were unsuitable due to excessive missing data. Finally data from 212 questionnaires were analysed.

From Table II, it can be comprehended that the data were collected from a diverse cross-sectional population. Out of 212 respondents, 68.1 per cent were male and 32.9 per cent were female. From the business sector point of view, 13.9 per cent were from primary, 51.4 per cent from manufacturing and 34.7 per cent from the service sector. In total,

<table>
<thead>
<tr>
<th>Particulars</th>
<th>Category</th>
<th>%</th>
<th>Particulars</th>
<th>Category</th>
<th>%</th>
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</thead>
<tbody>
<tr>
<td>Gender</td>
<td>Male</td>
<td>68.10</td>
<td>Sector of business</td>
<td>Primary</td>
<td>13.90</td>
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<tr>
<td></td>
<td>Female</td>
<td>32.90</td>
<td></td>
<td>Manufacturing service</td>
<td>51.40</td>
</tr>
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<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>34.70</td>
</tr>
<tr>
<td>Area</td>
<td>Dhaka</td>
<td>28.50</td>
<td>Business type</td>
<td>Sole trader</td>
<td>28.90</td>
</tr>
<tr>
<td></td>
<td>Chittagong</td>
<td>25.80</td>
<td></td>
<td>Partnership</td>
<td>21.40</td>
</tr>
<tr>
<td></td>
<td>Rajshahi</td>
<td>22.10</td>
<td></td>
<td>Family</td>
<td>09.10</td>
</tr>
<tr>
<td></td>
<td>Khulna</td>
<td>23.00</td>
<td></td>
<td>Co-operative</td>
<td>06.90</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Private Ltd</td>
<td>33.70</td>
</tr>
</tbody>
</table>

Table II. Demographic profiles of respondents
28.5 per cent were from Dhaka, 25.8 per cent from Chittagong, 22.1 per cent from Rajshahi and 23.6 per cent from Khulna division. From the business type point of view, 28.9 per cent were sole traders, 21.4 per cent were partnership, 9.1 per cent were a family business, 6.9 per cent were co-operative and 33.7 per cent were a private limited company.

Items of the questionnaire were identified from the systematic review of literature. All of the items of the questionnaire were measured in five-point Likert-scale. Before the final data collection, a pre-test was carried out among 20 samples and five academics to ensure the appropriateness of wording, contents, scales, sequence and format. Very minor amendments were made on the basis of pre-test.

Specifying socio-economic barriers to enter in foreign markets for Bangladeshi SMEs as a hierarchical reflective model. Hierarchical construct (also known as the multidimensional construct) is defined as a construct with multiple dimensions at several hierarchies to capture an overall latent variable (Jarvis et al., 2003). For the advantages of reducing the model complexity and increasing theoretical discretion, these constructs (hierarchical constructs) have proven to be successful by many studies (Akter et al., 2010). In addition, the “level of abstraction for predictor and criterion variables” is considered as one of the most important advantages of using the hierarchical constructs in the research studies (Chin and Gopal, 1995). This study aims to identify the barriers to entering foreign markets for Bangladeshi SMEs. Considering this exploration, this study specifies the barriers of internationalisation for Bangladeshi SMEs as a hierarchical reflective model with two reflective constructs (see Figure 1) – social and economic barriers to enter in foreign markets for Bangladeshi SMEs. Besides, all of these constructs of this model share the common theme that is the overall socio-economic barriers faced by Bangladeshi SMEs to enter in foreign markets. According to Bollen and Lennox (1991), the correlation between two measures is supposed to be highly positive for a reflective construct. This is also supported by Akter et al. (2010), who have explained internal consistency as one of the most important elements of reflective constructs. Besides, the un-dimensional nature of the reflective measures assists to get rid of the individual measures for the purpose of improving the construct validity with no effect on the content validity (Petter et al., 2007).

In Figure 2, there are two orders – first and second. In the first order, there are two latent variables of socio-economic barriers to enter in foreign markets for Bangladeshi SMEs – social and economic barriers that are related to the respective indicators (manifest variables (MVs)) each. In the second order, barriers to enter in foreign markets for Bangladeshi SMEs are shown in a hierarchical reflective model that is constructed by seven MVs (three + four) of two first-order constructs.

In Table III, the equations for estimating the hierarchical reflective models on the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs are presented. There are two-order models – first-order model and second-order model. The equation for the first-order model specifies first-order MVs (y_i), latent variable (η_j), loadings (Δ_y) and an error term (ε_i). The equation of the second-order model specifies the first-order factors (η_j) in terms of the second-order latent variables (ξ_k) and error (ζ_j) for the first-order factor and second-order latent variable loadings (Γ).

Using partial least square (PLS) to assess the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs. PLS path modelling, also known as the component-based SEM, is popularly used for ensuring more theoretical parsimony and less complexity (Akter et al., 2010). In the above section of the study, it has been discussed that a higher order, reflective model will be used in this study to encompass the constructs having more than one dimension and indicator. By using the higher order reflective model, this study will avoid the limitations of co-variance-based SME. Therefore, this study will be free from the common draw backs of SEM, including measurement level, sample size, distributional
properties and lack of identification (Wetzels et al., 2009). Besides, “it can give more accurate estimates of mediating and moderating effects by accounting for the measurement error that attenuates the estimated relationships and improves the validation of theories” (Akter et al., 2010, p. 293). Furthermore, it is also suitable for the study where the objective is prediction and the research context is new or changing (Chin and Gopal, 1995). Therefore, a higher order reflective model will be suitable for this study because this study aims to assess the socio-economic barriers to entering foreign markets for Bangladeshi SMEs.

Findings

Findings from the investigation related to the socio-economic barriers to entering foreign markets for Bangladeshi SMEs are presented in three stages – evaluation of the model measurements, evaluation of the model and finally the relationship in the model are tested. These three steps of presenting the results ensure the validity and reliability of the latent variables prior to drawing the conclusion on hypothesised relationships (Akter et al., 2010).
Analysis of measurement model
This study has used PLS graph 3.0 (Wetzels et al., 2009) to investigate the socio-economic barriers to enter in foreign markets for Bangladeshi SMEs by using the hierarchical model with PLS path modelling with a path weighting scheme for the inside approximation (Akter et al., 2010). Following the path weighting scheme, this study used non-parametric bootstrapping (Wetzels et al., 2009) where the standard error of the estimates are obtained by using 500 replications. Following the suggestion made by Akter et al. (2010), this study has used the approach of repeated indicators to estimate the higher order latent variables. Therefore, the second-order factor (socio-economic barriers to enter in foreign markets for Bangladeshi SMEs) is directly measured by the indicators (MVs) of the first-order factors (social and economic).

As proposed in Wetzels et al. (2009), a confirmatory factor analysis is conducted to test the model and analyse the reliability and validity. Table IV shows that the individual item loading is higher than 0.70 and which is also significant at 0.01. Further, reliability of the scale is assessed through the composite reliability (CR), Cronbach’s α (CA) and average variance extracted (AVE) as recommended in Akter et al. (2010). The result (Table III) finds that the values for CR and CA on the social and economic barriers are well above the threshold point of 0.70 (Hulland, 1999), which indicates the scale consistency for each item. On the other hand, AVE for economic and social barriers (Table IV) is also higher than the modest threshold 0.50 (Fornell and Bookstein, 1982). Again this indicates that each construct captures adequate variance from its items and all the constructs are conceptually distinct. Therefore, the convergent validity of all the scales is ensured. Finally, the result of the square root of AVE found in Table V ensures discriminant validity. The square root value of AVE confirms that they are higher than the corresponding correlation coefficients in the correlation matrix (Fornell and Bookstein, 1982). Therefore, it can be concluded that all the empirical results related to the analysis of the measurement model are satisfactory with respect to adequate reliability, convergent validity and discriminant validity.

Assessment of higher order model
A hierarchical construct model is developed to show the socio-economic barriers to entering foreign markets for Bangladeshi SMEs in Figure 2. The second-order constructs (overall barriers) are reflected in the first-order constructs and the degree of explained variances are economic (88 per cent) and social (81 per cent). The result shows that (Table IV) the path

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items summary</th>
<th>Loadings</th>
<th>CR</th>
<th>CA</th>
<th>AVE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social barriers</td>
<td>Language differences</td>
<td>0.971</td>
<td>0.967</td>
<td>0.948</td>
<td>0.907</td>
</tr>
<tr>
<td></td>
<td>Different social approaches</td>
<td>0.974</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of R&amp;D facilities</td>
<td>0.911</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Economic barriers</td>
<td>Political instability</td>
<td>0.937</td>
<td>0.953</td>
<td>0.934</td>
<td>0.837</td>
</tr>
<tr>
<td></td>
<td>Legal procedural barrier</td>
<td>0.897</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Lack of express service</td>
<td>0.962</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Corruption</td>
<td>0.861</td>
<td></td>
<td></td>
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Table IV. Psychometric properties for first-order constructs

<table>
<thead>
<tr>
<th>Constructs</th>
<th>Items summary</th>
<th>Loadings</th>
<th>Social</th>
<th>Economic</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social</td>
<td></td>
<td></td>
<td>0.952*</td>
<td></td>
</tr>
<tr>
<td>Economic</td>
<td></td>
<td>0.689831</td>
<td></td>
<td>0.915*</td>
</tr>
</tbody>
</table>

Note: *Square root of AVE on the diagonal
coefficients from overall barriers of internationalisation to second order (political, financial, social and technological) are significant at \( p < 0.01 \). Further, the validity of higher order reflective model is confirmed from the CR and AVE value. CR and AVE for the first-order constructs (political, economic, social and technological) are higher than threshold value of 0.70 and 0.50, respectively.

**Analysis of structural model and results of hypotheses testing**

This study has estimated the relationship between the overall socio-economic barriers and its sub-dimensions, i.e., economic and social barriers with an objective to measure the structural validity of the model (see Figure 3). The respective standardized \( \beta \) found in Figure 3 for social and economic barriers are 0.900 and 0.936 each; this result refers a strong association between those variables. Further, all these path coefficients are significant at \( p < 0.01 \) (please see Table VI). Therefore, overall findings support the hypotheses (please see Table VII).

**Summary of findings**

One of the key objectives of this study is to identify the socio-economic barriers to entering foreign markets for the SMEs in a developing country. To fulfil this objective, this study has developed and validated a barriers model that is able to explain the major barriers faced by the Bangladeshi SMEs to enter into the international market. This study also contributes to extend our knowledge on the barriers of SMEs from Bangladesh perspective by categorising the barriers in two dimensions (social and economic) with seven indicators. It has effectively enclosed barriers to enter in foreign markets for SMEs in a second-order reflective model where both dimensions reflect overall socio-economic barriers. Hence it contributes to the theoretical support for OECD’s (2006), Pangarkar’s (2008) and Sokfa and

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**Figure 3.** Main loadings of the model

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<table>
<thead>
<tr>
<th>Barriers to enter in foreign markets</th>
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<tbody>
<tr>
<td>Language differences</td>
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<tr>
<td>Different social approaches</td>
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<tr>
<td>Lack of R&amp;D facilities</td>
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<tr>
<td>Political instability</td>
</tr>
<tr>
<td>Legal procedural barrier</td>
</tr>
<tr>
<td>Lack of express service</td>
</tr>
<tr>
<td>Corruption</td>
</tr>
</tbody>
</table>

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**Table VI.** Analysis of structural model path coefficients (mean, SD, \( t \)-values)

<table>
<thead>
<tr>
<th></th>
<th>Original sample (O)</th>
<th>Sample mean (M)</th>
<th>SD</th>
<th>SE</th>
<th>( t )-statistics (O/STERR)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Overall barriers → economic</td>
<td>0.906195</td>
<td>0.932717</td>
<td>0.021119</td>
<td>0.021119</td>
<td>44.32955</td>
</tr>
<tr>
<td>Overall barriers → social</td>
<td>0.900278</td>
<td>0.896526</td>
<td>0.028672</td>
<td>0.028672</td>
<td>31.98671</td>
</tr>
</tbody>
</table>
Zimmermann’s (2008) studies. In fact, this study extends all these conceptualisation as the model of this study is also competent to provide the ranking of these barriers. In general, economic barriers seem to be most influential barriers for the SMEs to expand in international markets in developing countries as it explains 88 per cent of overall variance followed by the social barriers with 81 per cent. Though the ranking has been done on the basis of explanation power of individual constructs, the magnitude of difference is relatively very small. Therefore, it can be recommended that all these constructs should be given equal attention.

Another objective of this study was to demonstrate the complex relationship among the social and economic barriers to enter in foreign markets for SMEs empirically through PLS path modelling. To support this objective, a second-order reflective hierarchical model is developed using the data collected from SMEs in Bangladesh. This model should be able to better explain the complex relationship as suggested by (Fornell and Bookstein (1982). Following the suggestion made by Wold (1985), this study is used repeated indicators from first-order model to second-order model. All results confirmed the validity of measurement model and structural model. Therefore, it has successfully shifted individual barriers of internationalisation to overall barriers of internationalisation as stated by Wold (1985, p. 589), “PLS comes to the fore in larger models, when the importance shifts from individual variables and parameters to packages of variables and aggregate parameters”.

The main objective of this study was to identify the key socio-economic barriers to entering foreign markets for the SMEs in a developing country. To address this objective, a model on the socio-economic barriers has been developed and validated. This has surely extended our knowledge particularly from the Bangladeshi SMEs and their barriers to entering foreign markets context. However, it is believed that the findings of this study will assist policy makers and owners of SMEs to know their priority to back the internationalisation of SMEs. Through the PLS path model, this study clearly rated the barriers faced by SMEs to entering into international market. It shows that economic barriers are more dominating over social barriers in developing countries. Therefore, support services given by government and non-government organisation in developing countries to assist the growth of SMEs should prioritise the political issues followed by the social barriers.

Conclusion
This study has identified the key socio-economic barriers faced by the SMEs in a developing country to entering foreign markets. It has successfully framed the socio-economic barriers as follows:

<table>
<thead>
<tr>
<th>Hypothesis</th>
<th>Path coefficient</th>
<th>t-value</th>
<th>Conclusion</th>
</tr>
</thead>
<tbody>
<tr>
<td>H1: Language difference as a factor of social barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.971</td>
<td>123.988</td>
<td>Supported</td>
</tr>
<tr>
<td>H2: Different social approach as a factor of social barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.974</td>
<td>124.100</td>
<td>Supported</td>
</tr>
<tr>
<td>H3: Lack of R&amp;D as a factor of social barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.911</td>
<td>25.022</td>
<td>Supported</td>
</tr>
<tr>
<td>H4: Political instability as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.937</td>
<td>47.427</td>
<td>Supported</td>
</tr>
<tr>
<td>H5: Legal procedural complexity as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.897</td>
<td>21.329</td>
<td>Supported</td>
</tr>
<tr>
<td>H6: Lack of express service as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.962</td>
<td>74.254</td>
<td>Supported</td>
</tr>
<tr>
<td>H7: Corruption as a factor of economic barriers and foreign market entry of SMEs will not be independent from one another</td>
<td>0.861</td>
<td>21.263</td>
<td>Supported</td>
</tr>
</tbody>
</table>

Table VII.
Results on hypotheses
to entering foreign markets for Bangladeshi SMEs as a second-order hierarchical model, indicating both dimensions of barriers significantly reflecting on the overall barriers. All seven hypotheses are supported (Table VI). There is no study, so far, on the socio-economic barriers faced by the SMEs from the Bangladesh perspective. Findings of this study will contribute to filling this gap. Another key contribution of this study is the development of hierarchical reflective model using PLS to assess the socio-economic barriers to enter in foreign markets for the SMEs in a developing country.

Limitations and future research directions
This study has some limitations that may be considered for future research. First, the model developed in this study is based on a specific context (developing country) which may not be generalised in the other context (developed country). Second, this study used cross-sectional data which may have some common method variance (Straub et al., 2004). By using the longitudinal analysis, future research can achieve better measurement reliability. Finally, the comparative analysis between the hierarchical models of component-based PLS and covariance-based SEM could be done under different research circumstances, such as number of MVs, sample size per latent variables, and distributional properties of the MVs. These variations may be able to develop a model comparing both formative and reflective approaches of SEM.

References


Barriers to enter in foreign markets


Further reading


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Explaining the surge in M&A as an entry mode: home country and cultural influences

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Leeds Business School, Leeds Beckett University, Leeds, UK
Yan Wang
University of Huddersfield, Huddersfield, UK
Chengqi Wang
University of Nottingham, Nottingham, UK, and
Mohammad F. Ahammad
Nottingham Trent University, Nottingham, UK

Abstract
Purpose – The purpose of this paper is to examine the trends, patterns and the impact of cultural and home country macroeconomic influences on Chinese cross-border mergers and acquisitions (CBM&A) as foreign entry strategy for the period of 1998-2011.

Design/methodology/approach – Using three regression models, namely, ordinary least squares, the random effects and fixed effects to examine the impact of home country macroeconomic and cultural factors on CBM&A outflows as an entry mode of Chinese firms. The authors check the robustness of the results using system GMM.

Findings – The findings suggest that CBM&A as a preferred mode of market entry provides a means for obtaining strategic resources to develop competitive advantages for the Chinese emerging market firms. The regression results indicate that home country macroeconomic and cultural variables, including gross domestic product (GDP), liquidity, interest rates, inflation, acquisitions in resource seeking sectors and cultural distance play an important role in explaining the trends of CBM&A outflows by the Chinese firms.

Research limitations/implications – The results imply that government support to emerging market multinational enterprises (EMEs) to acquire strategic assets and economic policies in the home country play an important role in shaping international expansion behaviour of EMEs through CBM&A. The study demonstrates that outward investments of EMEs are partly a function of the level of economic policies and government support at home. The limitation is that most of the Chinese CBM&A transactions took place in Asia/Pacific locations. Future studies appear warranted if new data become available.

Originality/value – The study demonstrates how the institutions, strategic asset seeking with government support and economic policies in the home country play important role in shaping international expansion behaviour of emerging market enterprises through CBM&A thereby contributing to the political economy literature and institutional theory. More importantly, the study shows that the level of economic policies and development such as GDP, money supply, interest rates, inflation of the home country are important for EME growth in the international market.

Keywords China, Internationalization, Mergers, Culture, Macroeconomics, Acquisitions

1. Introduction
Foreign market entry choice is inherently risky and challenging and has direct impact on the international marketing strategy and performance of a firm (Erramilli, 1991; Sakarya et al., 2007; Malhotra and Sivakumar, 2011). The challenges associated with the foreign

The authors are grateful to the Guest Editors, particularly Dr Shlomo Tarba and the three anonymous reviewers for providing detailed and constructive feedback throughout the review process.
market entry decision stem from the varied impact of institutional and environmental factors on firms’ market selection decisions (Whitelock and Jobber, 2004). This paper focuses on one form of establishment modes[1] of foreign market entry, namely, cross-border mergers and acquisitions (CBM&A) which has become the predominant mode of market entry by large emerging market multinational enterprises (EMEs) over the past 20 years (Deng, 2010; UNCTAD, 2012; Contractor et al., 2014). Despite the use of CBM&A to penetrate into foreign markets, prior studies that consider the impact of home country factors on CBM&A as an entry mode are rare and most studies have concentrated on the effects of host country factors, firm- and industry-specific determinants (Brouthers and Dikova, 2010). For example, the relationship between the host country macroeconomic fundamentals and CBM&A in advanced market economies has been examined by studies such as Alguacil et al. (2011), Boateng et al. (2011) and Uddin and Boateng (2011). In contrast, relatively little is known about the relationship between the home country macroeconomic factors and CBM&A outflows (Morschett et al., 2010). However, it is argued that the environmental factors associated with a firm’s country of origin provide a crucial means, even if partially, to the development of a firm’s competitive advantages by providing the context in which firm choices are made (Tolentino, 2010; Hennart, 2009; Kalotay and Sulstarova, 2010). Second, earlier work in marketing and strategy has revealed that specific economic and cultural features of the national environment act as barriers and may impact on the choice between the greenfield investment and acquisitions (Brouthers and Brouthers, 2000; Slangen and Hennart, 2008a, b; Georgopoulos and Preusse, 2009; Malhotra and Sivakumar, 2011). Researchers such as Whitelock and Jobber (2004), Hennart (2009) and Berry et al. (2010) also note that the cultural distance between the home and host country markets affects firms’ international market entry strategies, outward investment patterns and the market potential of the host country. In this paper, we examine the trends, patterns and the extent to which home country macroeconomic and cultural factors influence the CBM&A outflow activities of large firms from EMEs. We ask the following questions: what are the trends and patterns of CBM&A as an entry mode choice by EMEs? To what extent do macroeconomic and cultural factors foster CBM&A as a mode of market entry?

China provides a good case to explore the impact of home country factors on EME international expansion for the following reasons. First, in the last decade, a substantial number of firms from emerging markets, particularly, Brazil, Russia, India and China (BRIC) have entered into international markets (UNCTAD, 2013). Economic liberalisation and reforms in the trade policies of BRIC countries have motivated firms from these countries to invest abroad. China as the largest emerging economy among the BRIC countries has been at the forefront of the economic reforms, transforming itself from centrally planned socialist country to a market-oriented market economy. In particular, China has seen some massive changes and improvement in the macroeconomic fundamentals over the past two decades and many developing countries are looking up to China for a guide. Second, Peng (2009), Luo et al. (2010) and Du and Boateng (2015) note that Chinese firms do not have similar ownership advantages and capabilities compared to their counterparts from advanced countries and that Chinese government reforms and improvement in macroeconomic policies and institutions are behind the rise in CBM&A outflows. This point is supported by Hitt et al. (2004) who indicate that the Chinese government’s authority over businesses is pervasive and CBM&A decisions of Chinese firms are driven by institutional and other home country factors. China therefore provides an important setting to explore the impact of home country macroeconomic influences on CBM&A. This study contributes to the existing literature in the following ways. Our results shed lights on how the institutions, strategic asset seeking with government support and economic policies in the home country play important role in shaping international expansion behaviour of emerging market
enterprises through CBM&A thereby contributing to the political economy literature and institutional theory. More importantly, the study shows that the level of economic policies and development such as gross domestic product (GDP), money supply, interest rates, inflation of the home country are important for EME growth in the international market. The paper enriches our understanding of how emerging country government policy, i.e., the “go abroad” for Chinese firms to go abroad and seek strategic resources unavailable in China can leverage support to EMEs in their process of global expansion and competition.

The remainder of this paper is organised along the following lines. The next section summarises the literature and develops the hypotheses of the study. Section 3 presents the data and the modelling framework that accounts for the role of cultural and macroeconomic influences on CBM&A. Section 4 presents the results and discusses the findings of the study. The last section provides a summary of the conclusion and discusses the implications of the study.

2. Literature review

2.1 Why CBM&A as an entry mode by EMEs?

UNCTAD (2012) points out that about 70-90 per cent of the outward FDI from emerging markets are carried out via acquisitions. The predominant use of CBM&A as a vehicle for internationalisation by EMEs is driven by the need to acquire strategic assets in advanced countries that are unavailable at home (Boateng et al., 2008; Rui and Yip, 2008). The above findings are consistent with the often cited reason for CBM&A in the international marketing literature, namely, to improve company’s innovativeness and product portfolio (Markovitch et al., 2005; Prabhu et al., 2005). However, the tacit nature of some types of proprietary and intangible resources and capabilities makes them difficult to purchase through market transactions (Coff, 1999; Gupta and Govindarajan, 2000). Nadolska and Barkema (2007) and Capron et al. (1998) argue that the market for firms may be more efficient than the market for some resources, thus making acquisitions the popular entry mode for gaining and reconfiguring new resources and capabilities. Empirical studies have confirmed that CBM&A is a preferred entry mode choice for firms with less distinct research and development (R&D) capabilities or competitive advantages (Hennart and Park, 1993; Deng, 2004; Boateng et al., 2008). It is also argued that CBM&A enable faster adaptation to the local environment of the host country (Slangen and Hennart, 2008a, b). Unlike greenfield investments, acquisitions do not involve building businesses from scratch in the host country, but are going concerns with an established network, have local market knowledge, locally accepted products and brands (Caves, 1996; Slangen and Hennart, 2008a, b). Therefore, entering the host country via CBM&A can help emerging market firms to overcome transaction cost barriers and improve their market position in the local market (Demirbag et al., 2008; Georgopoulos and Preusse, 2009). Moreover, acquisitions are less likely to suffer from a liability of foreignness (Zaheer, 1995). As latecomers in the international market, Chinese firms use CBM&A to overcome costs and risks associated with a liability of newness (Deng, 2009).

2.2 Firm-specific and external determinants of entry mode choice

Prior research efforts have examined international entry mode choice from a number of theoretical approaches including transaction cost theory (Erramilli and Rao, 1993; Anderson and Gatignon, 1986; Brouthers, 2002), resource-based view (Ekeledo and Sivakumar, 2004; Nadolska and Barkema, 2007; Liu and Zou, 2008), eclectic paradigm (Dunning, 1988), strategic intent perspective (Rui and Yip, 2008), communication-based theory (Slangen, 2011), real options theory (Slangen, 2013), political economy view (Bodde, 1988) and institution-based view of international business strategy (Peng, 2002; Arslan and Larimo, 2011; Slangen and Dikova, 2014). Transaction cost theory posits
that firms base their entry-mode decisions on the extent to which total transaction and production costs are minimised (Anderson and Gatignon, 1986; Brouthers, 2002). Ownership preference is one major way of protecting a firm’s ownership advantages and minimising the overall costs (Tsang, 2005). In similar vein, eclectic paradigm points out that a firm with ownership advantage such as cutting edge technology, R&D, product innovation capability would prefer to internalise activities hence the preference for high entry mode strategy (Klein et al., 1990). The overall thrust of the above theoretical perspectives is that internal factors such as ownership advantages, especially the possession of superior resources are critical for building competitive advantage and drive the choice of foreign entry mode.

While internal factors associated with firms’ assets and competencies are central to their competitive advantages and overseas expansion decisions, Hennart (2009) and Dunning (2009) suggest that external factors such as country-specific factors and cultural differences between home and host countries have explanatory power for overseas investment expansion decisions. For example, Dunning (2009) recognises market imperfections and explicitly points out that, the propensity of firms to undertake foreign production is influenced by financial and foreign exchange markets. In various modifications and extensions to OLI, Dunning (2009) and Kalotay and Sulstarova (2010) have reinforced the importance of country-specific factors, including government economic policies in explaining the international production activity within the OLI paradigm. More specifically, Meyer and Nguyen (2005) and Luo et al. (2010) also emphasise that home country economic policies and institutional environment create macroeconomic stability, minimise distortions, support competitiveness and play a crucial role in private sector development and foreign expansion decisions of emerging firms. In their examination of the outward investment by Chinese firms through the lens of strategic intent, Rui and Yip (2008) argue that Chinese firms use CBM&A as a means to secure strategic capabilities to offset competitive disadvantages by taking advantage of the government “go abroad policies” and the associated institutional incentives. Similarly, recent studies such as Tihanyi et al. (2005); Efrat and Shoham (2013); Malhotra and Sivakumar (2011); Contractor et al. (2014) suggest that cultural differences between the acquirer and target nations matter in a firm’s internationalisation and entry choice decisions. Brouthers and Brouthers (2000) note that the “cultural context helps to define profits potential and/or the risks associated with a specific market entry” (p. 91). It is argued that being less familiar with the target country leads to higher uncertainty levels, unpredictable outcomes and increase in unforeseen costs hence a preference for the entry which requires a lower resource commitment (Randøy and Dibrell, 2002; Zhao et al., 2004). This suggests that, opting for greenfield would lock an investor into large and irreversible investments. As a result, firms are more likely to choose acquisitions since they require relatively less resource commitment and do not involve building the business from scratch (Contractor et al., 2014). The above argument is in line with uncertainty avoidance tendency of entry mode choice which is well documented in stage models of internationalisation (Johanson and Vahlne, 1977). Risk aversion is, in this perspective, likely to lead to a careful resource commitment in a foreign market (Kogut and Singh, 1988). In the context of emerging economies, Boateng et al. (2008) note that given the firms from China are latecomers in foreign markets, lack strategic resources and have high investment risk, they tend to choose CBM&A as a fastest way of entering into foreign markets to obtain the resources they do not have at home.

Despite decades of research on entry mode in international management research (see Slangen and Hennart, 2007), and the recent provocative question by Shaver (2013) on the need for more entry mode studies, Hennart and Slangen (2015) emphasise the importance of exploring the factors influencing entry mode choice in developed and emerging market
context. While recent work is beginning to pay some attention to the effects of cultural distance and home country factors on the patterns and trends of CBM&A as entry mode the results appear inconclusive (Tihanyi et al., 2005; Morschett et al., 2010). This study contributes to this line of research and shed more light on how home country economic policies and institutional environment affect Chinese firms’ expansion abroad.

3. Hypotheses development

According to political economy theory, governments, economic policies in the home country and institutions played an important role in shaping international expansion behaviour and the trajectory of multinational enterprises (Boddewyn, 1988). For example, home country economic policies and institutional environment create macroeconomic stability, minimise distortions, support competitiveness and encourage private sector development and expansion. Drawing on both macroeconomic theory and institutional perspectives, we put forward a number of home country factors that may influence EMEs to engage in CBM&A.

3.1 GDP (Growth)

GDP has been identified as one of the determinants of international expansion of the firms. Prior studies suggest that the size of home country GDP influence the decision to invest abroad (Uddin and Boateng, 2011; Boateng et al., 2011). For example, Neto et al. (2010) argue that multinational firms located in large markets are more inclined to invest in the international market as the largeness of home economy help them to acquire firm-specific advantages. China is the largest emerging economy and has witnessed an increased prosperity over the last two decades. For example, GDP in China which stood at 8,440.23 billion Chinese Yuan in 1998 has grown at an average of 9.49 per cent each year to 47,156.37 billion Chinese Yuan in 2011 (National Bureau of Statistics of China, 2012). Consistent to the conclusions drawn by Vasconcellos and Kish (1996) which indicate that, in times of economic prosperity firms tend to undertake international expansion through M&A. Some studies such as Uddin and Boateng (2011) suggest a negative relationship between GDP and CBM&A outflows because higher GDP levels can encourage local firms to acquire domestic companies rather than invest abroad due to liability of foreignness. We argue that this may not be the case in China because Chinese firms, as latecomers in the foreign market, strategically use CBM&A to acquire strategic capabilities abroad which local firms lack at home to offset their competitive weaknesses (Deng, 2009; Rui and Yip, 2008 for review of latecomer theory). We therefore expect that Chinese acquiring firms will engage in international expansion due to the growth in GDP. In the light of the argument above, it is hypothesised that:

H1. The growth of GDP is positively related to the outflows of Chinese CBM&A.

3.2 Interest rate (IntRate)

Interest rate is another macroeconomic factor which may influence CBM&A transactions (Tolentino, 2010). It is argued that a lower interest rate in a home country can reduce the cost of financing and increase cash financed acquisition activities (Yagil, 1996). Tolentino (2010), Forssbaeck and Oxelheim (2008) and Uddin and Boateng (2011) concur and point out that lower interest rate results in capital abundance in home country which stimulates outward investments across different countries to help local firms diversify, reduce risks and increase the level of profitability. In the context of China, there have been periods of low interest rate ranging from 1.98 to 3.6 per cent. Similarly, there have also been periods where interest rates rocketed to 12.21 per cent. However, the interest rate has been, on the average, around 5.5 per cent over the period of 1998-2011 and therefore we expect the low
interest rate to have a positive impact on Chinese CBM&A. In light of above discussion, we hypothesise that:

\( H2 \). Lower interest rates in China will lead to an increase CBM&A outflows.

Stock price (\( S_{\text{Price}} \)). Researchers such as Benzing (1991) argue that high share price implies a booming economy and thus leads to more stock-financed CBM&A transactions. One dominant explanation is based on overvaluation hypothesis (see Shleifer and Vishny, 2003; Baker et al., 2009). Shleifer and Vishny (2003) suggest that in the booming stock market, stock prices of some firms are likely to be overvalued. In order to protect shareholder from subsequent share price decrease, managers may use firms’ overvalued shares to conduct CBM&A to acquire real assets. Baker et al. (2009) examined the share prices in the context of FDI and render support to this relationship, claiming that overvalued share in the home country may motivate firms to conduct outward FDI. Kish and Vasconcellos (1993) find that high share prices in Japan and lower share prices in the USA stimulate Japanese firms to acquire US firms. The above argument leads to the following hypothesis:

\( H3 \). Stock price and Chinese CBM&A outflows will be positively related.

3.3 Inflation (\( C_{\text{PIndex}} \))

Gugler et al. (2012) argue that when firm’s return on its capital exceeds cost of capital then \( Q \) is greater than one and this leads the firms to acquire more assets either in the form of capital investments or acquisitions of other firms. Inflation in the economy affects both the return on investments and also the cost of capital thereby affecting the acquisition decision of a firm. For example, McKinnon (1973) pointed out that at higher rates of inflation, money becomes more costly to hold and the net return from investment is lower. On the other hand, Fisher equation of nominal interest rate shows that nominal interest rate which is a measure of cost of capital is always higher than real interest rate in the presence of inflation. The presence of high inflation in the home country discourages domestic acquisitions by negatively affecting the firm’s \( Q \) thereby reducing return on investments and increasing cost of capital. The alternative available to a firm is to invest abroad where the inflation is lower. Lower inflation in the host country relative to home country will help boost the \( Q \) ratio and increase the volume of acquisitions activity. Sayek (2009) also found that changes in inflation rates of the domestic or foreign country tend to alter the net returns and optimal investment decisions of the MNEs. In the presence of inflation, multinational enterprises minimise the negative effects of inflation by changing location of production based on the extent of inflation between home and host country. Although the role of inflation in explaining aggregate CBM&A flow is important, there are few studies in the Chinese context. According to Economic Intelligence Unit (EIU) (2012), China’s inflation peaked in 2008 and 2011 around 5.9 and 5.4 per cent, respectively. However, in 1998, 1999 and 2002, China recorded a negative inflation ranging from 0.7 to 1.4 per cent suggesting that there have been periods of relatively low and high inflation in China and it will be interesting to see the impact of inflation on outward M&A. In the light of the above, it is hypothesised that:

\( H4 \). Inflation rate has a positive impact on the Chinese CBM&A outflows.

3.4 Liquidity (Money supply)

CBM&A may be motivated by the liquidity position of the economy (Harford, 2005). According to Harford (2005), the liquidity of the economy is positively associated with the aggregate level of M&A transactions. Shleifer and Vishny (1992) pointed out that an
increased money supply in the home economy leads to more liquidity which affects the disposable income and the cost of finance. From the theoretical standpoint, an increasing level of liquidity in the home economy leads to lower cost of finance and therefore encourages M&A formation. Consistent with the earlier studies by Shleifer and Vishny (1992) and Uddin and Boateng (2011), the overall liquidity of the economy is used as a proxy for money supply in this paper. Based on the above discussion, it is hypothesised that:

**H5.** Liquidity (money supply) is positively associated with the Chinese CBM&A outflows.

### 3.5 Culture distance (CDist)

Conceptual and empirical studies in marketing and international business that examine cultural effects at the country level have yielded many important and interesting insights (Griffith and Yaprak, 2008; Steenkamp, 2001; Slangen and Hennart, 2008a, b). On one hand, David and Singh (1994, p. 251) point out that cultural differences represent a source of “acquisition cultural risk” and a potential obstacle to achieving integration benefits. In similar vein, Chakrabarti *et al.* (2009) and Kogut and Singh (1988) argue that multinational firms entering foreign markets with dissimilar cultures face diverse social routines and implicit assumptions which are unfamiliar and challenging may necessitate adjustment and adaptation. Thus, Contractor *et al.* (2014) and Datta and Puia (1995) indicate that the greater the culture distance, the higher the perceived uncertainties, costs and risks involved in a firm’s internationalisation.

On the other hand, some researchers challenge the view that cultural differences are indicative of cultural clashes and argue that some cultural differences can, in fact, be attractive to acquirers (e.g. Erramilli, 1991; Very *et al.*, 1997). For example, Very *et al.* (1997) suggest that British acquired firms perceived domestic buyers as particularly incompatible and French acquired firms viewed domestic buyers as less compatible than US buyers. It is thus argued that more culturally distant acquisitions are more attractive because of the cultural differences increase potential synergies between the acquiring and target firms (Morosini *et al.*, 1998; Chakrabarti *et al.*, 2009). Morosini *et al.* (1998) assert that through acquisitions across borders, organisations may tap into valuable resources which are unavailable in the home markets, and so emphasise the value of a culturally diverse market location. Studies such as Morosini *et al.* (1998) and Anand *et al.* (2005) found empirical support for the notion that cultural differences result in opportunities to gain competitive advantage, fresh knowledge, innovative thinking and valuable resources which may outweigh the costs of implementing CBM&A. Morosini *et al.* (1998), Papadakis (2005) and Shimizu *et al.* (2004) argued that the greater the cultural differences, the higher the probability that a firm may learn and/or gain value from the acquired strategic assets. Given that Chinese firms are latecomers and are motivated to go abroad to acquire strategic assets which involve huge capital investments, the use of acquisitions may reduce risks and costs, enhance network opportunities in foreign locations and improve acquirers’ confidence to expand abroad (Lin *et al.*, 2009). In the light of the above arguments, we put forward the following hypothesis:

**H6.** Culture distance exerts a positive impact on Chinese CBM&A outflows.

**Strategic asset seeking (AssetS).** Gubbi *et al.* (2010) suggest that CBM&A conducted by emerging market enterprises are motivated by the differences in the quality of resources and institutional development in the host country markets. Chen and Young (2010) suggest that Chinese firms tend to pursue strategic resources which China lacks or to gain national pride when they invest abroad. As part of its economic reforms, Chinese government has embarked on the “go abroad” policy since 1999 to facilitate the acquisition of strategic resources in the international market to augment the competitive advantage of Chinese firms.
Using strategic intent perspectives, Rui and Yip (2008) support the contention that Chinese foreign acquisitions are a means to acquire strategic capabilities to offset competitive disadvantages. For example, Chinese government has designated areas like R&D, technology and scarce natural resources as priorities where it provides financial support and other incentives to firms investing in these priority areas. Assuming that managers are organisationally rational and implement strategies that they think will lead to higher performance (Simon, 1976), we expect that the so-called “helping hand” approach of Chinese government to lead to more CBM&A by Chinese firms: Therefore, we hypothesise that:

\textbf{H7.} The strategic resource seeking by Chinese firms is positively associated with CBM&A outflows by Chinese firms.

\textit{Home-host country foreign trade linkage (TraLink).} A number of studies, including Johanson and Vahlne (1977) and Buckley \textit{et al.} (2012) note that the process of firms’ internationalization generally starts with export and after that firms tend to conduct further outward investment by directly servicing the market. It is argued that a high frequency of business dealings from trade may facilitate CBM&A activities. High frequency of business dealings between the host country and home country helps the acquiring firms to have better understanding of the foreign market (Dunning, 1980) and thus facilitating the acquisition transactions. Moreover, home country foreign trade with host country helps firms to see the attractiveness of host market which may stimulate further investment decision (Buckley \textit{et al.}, 2012) to switch from export to foreign direct investment such as CBM&A. The above arguments lead to the following hypothesis:

\textbf{H8.} Foreign trade linkage between China and host country is positively related with outward CBM&A by Chinese firms.

4. Data and methodology

4.1 Sources of data

The data are derived from the records of Chinese Stock Market and Accounting Research (CSMAR) database and the United Nations Conference for Trade and Development (UNCTAD). The volume and value of Chinese CBM&A are compiled from CSAMR and UNCTAD. The macroeconomic data including GDP, interest rate, stock price, inflation, exchange rate, liquidity, foreign trade linkage and resource seeking data of this study are taken directly from CSMAR. Culture distance data which are measured by Hofstede’s Culture Distance Index is collected from Geert-Hofstede website. Geographical distance data are collected from geographic information system. The sample of the study consists of mainland Chinese listed companies that announced and completed CBM&A during the period 1998-2011. CSMAR provides a reliable and comprehensive source of Chinese CBM&A information and has been used in a number of research works such as Du and Boateng (2015).

4.2 Methodology

In order to estimate the effects of independent variables on the dependent variable, we used three regression models, namely, ordinary least squares (OLSs), the random effects and fixed effects to provide a meaningful comparison and improve the robustness of the results. Our model therefore is:

\[
CBMA_{it} = \beta_1 + \beta_2 \text{Growth}_{2it} + \beta_3 \text{IntRate}_{3it} + \beta_4 \text{SPrice}_{4it} + \beta_5 \text{CPIndex}_{5it} + \beta_6 M2_{6it} \\
+ \beta_7 \text{CDist}_{7it} + \beta_8 \text{Asset}_{8it} + \beta_9 \text{TraLink}_{9it} + \epsilon_{it}
\]

(1)

where \(\beta_1\) is the intercept and \(\epsilon_{it}\) is the error terms associated with the model.
We adopt panel data and GMM for this research. Hsiao (1985) notes that to use panel data estimation, the data should have at least two dimensions, that is, a cross-sectional dimension and time series dimension. The variables in this paper have data characteristics ranging from cross-sectional variables like cultural distance and trade openness to time series data such as interest rates and stock prices. By blending the characteristics of both the cross-section and time series variables, panel data improve the efficiency of econometric estimates by reducing omitted-variable problem (Hsiao, 1985; Antoniou et al., 2008). In addition, panel data provide a greater data points and thus additional degrees of freedom and help generate more accurate predictions (Hsiao, 1985). Panel data can also be used for aggregate data and studies such as Deesomsak et al. (2004) and Antoniou et al. (2008) employed panel estimates to model aggregate financial time series data which include share prices, interest rates in conjunction with cross-sectional data. The panel data are deemed appropriate for this paper because of its advantages over conventional cross-sectional or time series data estimations (Hsiao, 1985).

4.3 Variables measurement

The way in which the dependent and independent variables were measured are provided in Table I.

<table>
<thead>
<tr>
<th>Definition</th>
<th>Data source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent variable</strong></td>
<td></td>
</tr>
<tr>
<td>CRM&amp;A</td>
<td>Natural logarithm of volume of Chinese cross-border M&amp;As by target country by year from 1998 to 2011</td>
</tr>
<tr>
<td><strong>Macroeconomic variables</strong></td>
<td></td>
</tr>
<tr>
<td>Growth</td>
<td>GDP growth of China as measured by the natural logarithm of the annual gross domestic products growth</td>
</tr>
<tr>
<td>Data were collected from National Bureau of Statistics of China and CSMAR database</td>
<td></td>
</tr>
<tr>
<td>IntRate</td>
<td>Interest rate as measured by the natural logarithm of the annual nominal lending rate of China</td>
</tr>
<tr>
<td>SPrice</td>
<td>Stock return as measured by the natural logarithm of yearly closing minus yearly opening Shanghai (securities) composite index</td>
</tr>
<tr>
<td>CPI/ M2 (liquidity)</td>
<td>Inflation as measured by the natural logarithm of annual CPI</td>
</tr>
<tr>
<td>M2</td>
<td>Money supply of China as measured by the natural logarithm of annual M2</td>
</tr>
<tr>
<td><strong>Institutional factors</strong></td>
<td></td>
</tr>
<tr>
<td>CDist</td>
<td>We use a cultural distance index based on Hofstede’s culture dimensions, namely, power distance, individuality, masculinity, uncertainty avoidance and long-term orientation (long-term orientation is excluded from the calculation for lack of data). For each target country in our sample, we divide the value for the selected cultural index category for that year by the corresponding value for China and taking the mean across the four ratios thus obtained as the final value. Values &gt; 1 signify greater distance and those &lt; 1 reflect cultural proximity (Gubbi et al., 2010)</td>
</tr>
<tr>
<td>AssetS</td>
<td>Endowment of knowledge-based resources of host country as measured by the natural logarithm of yearly patent registration by residents in host country (Buckley et al., 2007)</td>
</tr>
<tr>
<td>TraLink</td>
<td>Trade linkage as measured by the natural logarithm of annual imports and exports between home country and host country</td>
</tr>
</tbody>
</table>

**Source:** Chinese Stock Market and Accounting Research (CSMAR) database

Table I. Definition of variables and descriptive statistics
5. Analysis of trends and patterns of Chinese CBM&A

5.1 Number of CBM&A by Chinese firms

The number of deals of CBM&A outflows by Chinese firms during the period 1998-2011 is shown in Table II. The table indicates that the accumulated outward M&As during the period from 2007 to 2011 accounts for over 80.24 per cent of the total acquisition which indicates significant increasing number of CBM&A deals after 2007. During this period, 189 deals took place with the highest being recorded in the year 2009. The results in Table II confirm CBM&A as a preferred mode of market entry by Chinese firms. The results suggest that Chinese firms are motivated by the need to acquire strategic assets in order to compete successfully in the global stage as pointed by Deng (2004). CBM&A provides a quick way to build a foreign presence by gaining access to new knowledge and skills (Boateng et al., 2008; Nadolska and Barkema, 2007). The findings are in line with the conclusion drawn by Zollo and Singh (2004) that CBM&A tend to help companies overcome barriers to entry, access new knowledge of markets and technologies, promote organisational learning, and achieve competitive advantage.

5.2 Value of CBM&A by Chinese firms

Table III shows the yearly deal values of CBM&A by Chinese firms. The value of CBM&As in China stood at $319 million in 1998 and remained relatively low level until 2006 when the value reached $12,090 million. The value of the deals increased dramatically from 2007 ($19,794 million) to the highest level of $37,941 million in 2008. It then fell to $21,490 million in 2009 before rising to $36,554 million in 2011. Although, the rising trends in terms of value appears consistent with the volume of CBM&A suggesting that the institutional reforms have played a pivotal role in CBM&A by Chinese firms. However, another plausible explanation may be the financial crisis which occurred in the late 2007 and 2008 which saw a number of acquisitions being made at cheaper prices in most of the developed countries especially the USA and countries from the European Union. The results therefore support the valuation hypothesis and economic disturbance theory (Gort, 1969) which posit that M&A waves are caused by economic disturbances which change individual expectations and increase the general level of uncertainty. The table shows that the accumulated CBM&A over the period 2006-2011 accounts for the vast majority of the acquisition. Overall the table suggests that China is becoming increasingly important investor in the global market for corporate control.

<table>
<thead>
<tr>
<th>Year</th>
<th>Number</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>24</td>
<td>2.42</td>
</tr>
<tr>
<td>1999</td>
<td>23</td>
<td>2.32</td>
</tr>
<tr>
<td>2000</td>
<td>24</td>
<td>2.42</td>
</tr>
<tr>
<td>2001</td>
<td>19</td>
<td>1.92</td>
</tr>
<tr>
<td>2002</td>
<td>34</td>
<td>3.43</td>
</tr>
<tr>
<td>2003</td>
<td>31</td>
<td>3.13</td>
</tr>
<tr>
<td>2004</td>
<td>44</td>
<td>4.44</td>
</tr>
<tr>
<td>2005</td>
<td>45</td>
<td>4.54</td>
</tr>
<tr>
<td>2006</td>
<td>42</td>
<td>4.23</td>
</tr>
<tr>
<td>2007</td>
<td>113</td>
<td>11.39</td>
</tr>
<tr>
<td>2008</td>
<td>168</td>
<td>16.94</td>
</tr>
<tr>
<td>2009</td>
<td>189</td>
<td>19.05</td>
</tr>
<tr>
<td>2010</td>
<td>183</td>
<td>18.45</td>
</tr>
<tr>
<td>2011</td>
<td>143</td>
<td>14.42</td>
</tr>
<tr>
<td>Total</td>
<td>100</td>
<td>100</td>
</tr>
</tbody>
</table>

Table II. Number of cross-border M&As by Chinese firms (1998-2011)

Source: Authors’ calculation based on CSMAR database, UNCTAD (2012)
5.3 Destination of CBM&A by Chinese firms

Panel A of Table IV reports the Chinese CBM&A outflows into developed and developing countries with about two-thirds of Chinese investments going into developing countries. Panel B of Table IV exhibits the target regional distribution of CBM&A by Chinese firms. As we can see from the table, Asia/Pacific region constitutes the biggest destination of Chinese CBM&A accounting for 66.63 per cent suggesting that geographical and cultural proximity may be important factors as entry mode for Chinese outward investments. Western Europe and North America also appear to be important destinations of Chinese CBM&A, accounting for 11.66 and 9.95 per cent of total deals, respectively. Boateng et al. (2008) and Rui and Yip (2008) point out that Chinese firms as latecomers in the global market tend to acquire strategic resources, such as high-end technology, marketing resources and R&D in developed countries and this may explain the importance of North America and Western Europe as leading destinations for Chinese CBM&A. Latin America is another important destination of Chinese CBM&A, accounting for 8.02 per cent. This is followed by and Africa and Mid-East accounting for 2.35 per cent. The least popular

<table>
<thead>
<tr>
<th>Year</th>
<th>Value of deals (million US dollars)</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>1998</td>
<td>319</td>
<td>0.19</td>
</tr>
<tr>
<td>1999</td>
<td>202</td>
<td>0.12</td>
</tr>
<tr>
<td>2000</td>
<td>361</td>
<td>0.22</td>
</tr>
<tr>
<td>2001</td>
<td>1,194</td>
<td>0.72</td>
</tr>
<tr>
<td>2002</td>
<td>1,194</td>
<td>0.72</td>
</tr>
<tr>
<td>2003</td>
<td>1,590</td>
<td>0.95</td>
</tr>
<tr>
<td>2004</td>
<td>917</td>
<td>0.55</td>
</tr>
<tr>
<td>2005</td>
<td>3,653</td>
<td>2.19</td>
</tr>
<tr>
<td>2006</td>
<td>12,090</td>
<td>7.24</td>
</tr>
<tr>
<td>2007</td>
<td>19,794</td>
<td>11.86</td>
</tr>
<tr>
<td>2008</td>
<td>37,941</td>
<td>22.74</td>
</tr>
<tr>
<td>2009</td>
<td>21,490</td>
<td>12.88</td>
</tr>
<tr>
<td>2010</td>
<td>29,578</td>
<td>17.72</td>
</tr>
<tr>
<td>2011</td>
<td>36,554</td>
<td>21.90</td>
</tr>
<tr>
<td>Total</td>
<td>166,877</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation based on CSMAR database, UNCTAD (2013)

<table>
<thead>
<tr>
<th>Region</th>
<th>Number of deals</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Panel A</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Developed economies</td>
<td>312</td>
<td>33.37</td>
</tr>
<tr>
<td>Developing economies</td>
<td>623</td>
<td>66.63</td>
</tr>
<tr>
<td>Total</td>
<td>935</td>
<td>100</td>
</tr>
<tr>
<td>Panel B</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Africa/Middle East</td>
<td>22</td>
<td>2.35</td>
</tr>
<tr>
<td>Asia/Pacific</td>
<td>623</td>
<td>66.63</td>
</tr>
<tr>
<td>Western Europe</td>
<td>109</td>
<td>11.66</td>
</tr>
<tr>
<td>North America</td>
<td>93</td>
<td>9.95</td>
</tr>
<tr>
<td>Eastern Europe</td>
<td>13</td>
<td>1.39</td>
</tr>
<tr>
<td>Latin America</td>
<td>75</td>
<td>8.02</td>
</tr>
<tr>
<td>Total</td>
<td>935</td>
<td>100</td>
</tr>
</tbody>
</table>

Source: Authors’ calculation based on CSMAR database

### Table III.
Value of cross-border M&As by Chinese firms (1998-2011)

### Table IV.
Regional distribution of CBM&As by Chinese firms (1998-2011)
destination is Eastern Europe which accounts for only 1.39 per cent of the total CBM&A by Chinese firms suggesting that Eastern European countries are less attractive as major investment destinations for Chinese firms.

5.4 Regression results: factors influencing Chinese CBM&A

Table V reports descriptive statistics. A number of interesting observations are worthy of discussion. The mean of GDP growth rate is 9.75 per cent from 1998 to 2011, suggesting a high economic development in China during this period. The mean of culture distance index is 0.4864 suggesting that the cultural distance between China and the rest of the world is increasingly becoming narrow. The mean of strategic asset seeking and home-target country trade linkage are 3.0488 and 7.2732, respectively, demonstrating that the Chinese firms tend to acquire targets in knowledge-based countries and countries with more international business linkage.

Table VI reports correlations of the variables. As we can see from the table, most correlations with the exception of the correlation between inflation and interest rate, home-target trade linkage and knowledge-based transactions are fairly low. We check the variance inflation factor scores and they appear to be within the cut-off point of 10 as recommended by Neter et al. (1985). Multicollinearity appears not to be a serious problem in this study.

Comparison of the models: In order to test the impact of macroeconomic and institutional factors on the outflows of Chinese M&A, we carried out a regression analysis using OLS, random effect and fixed effect models on the Chinese CBM&A outflows. The Hausman specification test is employed to test the fixed effect model and the random effect models.
The null hypothesis is: $H_0$: The $X$ variables are not correlated with the errors (Random Effects). The alternative hypothesis is: $H_1$: The $X$ variables are correlated with the errors (Fixed Effects). The test is asymptotically $x^2$ distributed with seven degrees of freedom. The analysis suggests that the random effects model can be rejected in favour of the fixed effects model at a 1 per cent critical level.

The empirical evidence obtained and reported in Table VII suggests that the coefficients of interest rates, inflation and money supply are significant for all the regression models with the exception of cultural distance variable which appear to be insignificant for fixed effect model. The results show that the three models offer quite similar findings but slightly different levels of significance. The significant exception is the adjusted $R^2$ which suggests that random effect has more explanatory power, followed by OLS and fixed effects with 25, 20 and 15 per cent, respectively. We now discuss the results of the three regression models reported in Table VII.

**Home country macroeconomic factors and CBM&A outflows.** Both fixed effect and random effect regression models reported in Table VII indicate that GDP growth exerts a significant influence on the volume of outward mergers and acquisitions by Chinese firms. The results suggest that the growth in GDP leads to higher CBM&A by the Chinese acquiring firms. The results imply that economic prosperity as reflected in the country’s GDP provides an important means for EMEs to expand into international markets to acquire resources lacking at home through CBM&A. Specifically, the period under consideration has seen a high growth of about 10 per cent increase in China’s GDP and this may explain the rising trends of CBM&A activities. This finding is consistent with the conclusion drawn by Vasconcellos and Kish (1996) who find that an improvement in the country’s GDP has positive effect on investment outflows. Regarding the effects of interest rate, inflation rate and liquidity, all the three analytical methods, namely, OLS, random effect and fixed effect models have coefficients that are highly significant. Interest rates and money supply have positive impact on Chinese CBM&A. The finding that the lower level of interest rates leads to an increase in the Chinese CBM&A renders some support to $H_2$. This finding is expected on the grounds that, the interest rates appear to be relatively low over the 1998-2011 period thereby leading to cheaper sources of finance with which to undertake CBM&A.

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>OLS CBM&amp;A (I)</th>
<th>Random effect CBM&amp;A (II)</th>
<th>Fixed effect CBM&amp;A (III)</th>
</tr>
</thead>
<tbody>
<tr>
<td>IntRate</td>
<td>0.048 (0.13)</td>
<td>−0.007 (−0.02)</td>
<td>−0.280 (−0.77)</td>
</tr>
<tr>
<td>SPrice</td>
<td>−0.616 (−3.05)***</td>
<td>−0.654 (−4.06)***</td>
<td>−0.793 (−4.69)***</td>
</tr>
<tr>
<td>M2</td>
<td>4.642 (4.88)***</td>
<td>5.135 (5.63)***</td>
<td>6.752 (4.19)***</td>
</tr>
<tr>
<td>CDist</td>
<td>4.813 (2.98)***</td>
<td>4.560 (2.47)*</td>
<td>−</td>
</tr>
<tr>
<td>AssetS</td>
<td>0.211 (1.02)</td>
<td>0.126 (0.54)</td>
<td>0.767 (2.00)*</td>
</tr>
<tr>
<td>TraLink</td>
<td>0.129 (0.48)</td>
<td>0.223 (0.72)</td>
<td>0.812 (0.51)</td>
</tr>
<tr>
<td>Constant</td>
<td>−13.490 (−2.02)*</td>
<td>−17.520 (−2.51)**</td>
<td>−25.510 (−3.88)***</td>
</tr>
<tr>
<td>Adjusted $R^2$</td>
<td>0.20</td>
<td>0.25</td>
<td>0.15</td>
</tr>
<tr>
<td>Hausman test</td>
<td></td>
<td></td>
<td>430.20***</td>
</tr>
<tr>
<td>$N$</td>
<td>154</td>
<td>154</td>
<td>154</td>
</tr>
</tbody>
</table>

Notes: The standard errors robust to heteroscedasticity, clustered, are reported in the parentheses. Hausman test compares fixed effects and random effects estimations. The significant $p$-value rejects the null hypothesis that the unobserved entity heterogeneity is uncorrelated with the regressors, hence favouring fixed effect results. *,**,***Coefficients are significant at the 10, 5 and 1 per cent levels, respectively.

Table VII. Regression results

M&A as an entry mode
outward CBM&A. Regarding the liquidity, our hypothesis is supported. The finding suggests that rising levels of liquidity in the home economy lead to lower cost of finance thus encouraging CBM&A formation as pointed out by Shleifer and Vishny (1992) and Uddin and Boateng (2011). Inflation appears to have a negative and significant impact on the CBM&A outflows across all the three analytical models at 1 per cent level. This may be explained by the rising levels of inflation in China. Inflation in China has been rising in recent years thereby exerting a negative influence on CBM&A. Surprisingly, stock index has positive coefficient in the OLS model while negative coefficients in the random and fixed effects models. However, the effects of stock price on Chinese CBM&A are not statistically significant. The results suggest that home country macroeconomic factors drive CBM&A decisions by the Chinese firms and provide support for the institutional and location theories.

Cultural factors and M&A outflows. We document a significant and positive impact of culture distance on CBM&A in respect of two regression models, namely, OLS and random effect on Chinese CBM&A outflows. H6 is supported suggesting that higher cultural distance between the host and target countries tend to encourage CBM&A outflows from China. This finding is consistent with the view of Very et al. (1996), Morosini et al. (1998), Anand et al. (2005) and Chakrabarti et al. (2009). The findings indicate that cultural distance provides opportunities for Chinese firms to learn and tap into valuable resources in culturally diverse target organisations thereby enhancing their competitive advantage (Morosini et al., 1998) and capabilities (Papadakis, 2005). The results also support the notion that cultural differences may lead to cultural attraction (Very et al., 1996) and increase in CBM&A outflows in culturally distant countries.

We also find moderate support for the relationship between resource seeking and CBM&A outflows. All the three models appear positive with fixed effect model being significant at 10 per cent level. This finding is interesting because Chinese government through its “go abroad” policy provides financial support and other incentives to firms making acquisitions abroad in the government priority sectors. The finding therefore supports the notion that managers are organisationally rational and would implement strategies such as acquisitions to obtain competitive advantage (Simon, 1976). Regarding the trade link between home and host countries, the finding suggests that trade between home and host countries appears not to exert a significant influence and hence our hypothesis is not supported. The finding is at variance with the conclusion drawn by Buckley et al. (2012) indicating that existing trade linkage stimulates investment outflows. Table VIII provides a summary of the results of our study in comparisons with the past studies on CBM&A which are mainly based on developed countries. The table suggests that home country and institutional factors including interest rates, stock prices, cultural distance and strategic asset seeking have positive effects on CBM&A outflows similar to prior studies in developed countries confirming the importance of home country economic policies and institutions in firm’s foreign expansion decisions. However, the results in respect of GDP, inflation, liquidity and home-host country trade linkage produced inconclusive findings.

Robustness check: system GMM. We conducted a further analysis using the dynamic model to check the robustness of our conclusions. Table IX provides the results for the dynamic model using system GMM. In the dynamic model, we include all factors in the regression model. It is important to note that the GMM results after controlling for endogeneity are generally similar to the results in Table IV.

6. Conclusion
This paper examines the trends, patterns and the impact of cultural and home country macroeconomic policies on CBM&A as an entry mode using three analytical regression models, namely, OLS, random and fixed effects. Our results indicate that Chinese firms use CBM&A as an entry mode to acquire, build a foreign presence and gain access to new
<table>
<thead>
<tr>
<th>Home country factors</th>
<th>Findings of the present study</th>
<th>Findings of past studies positive negative insignificant</th>
</tr>
</thead>
<tbody>
<tr>
<td>Interest rate</td>
<td>Positive relationship between interest rates and CBM&amp;A</td>
<td>Uddin and Boateng (2011) (UK)</td>
</tr>
<tr>
<td>Inflation</td>
<td>Negative relationship between Inflation and CBM&amp;A</td>
<td>Uddin and Boateng (2011) (UK)</td>
</tr>
<tr>
<td>Home-host country Foreign trade linkage</td>
<td>Insignificant relationship between trade link and CBM&amp;A outflows</td>
<td>Buckley et al. (2012)</td>
</tr>
</tbody>
</table>

### Table VIII.
Comparison: our findings vs past studies on CBM&A

### Table IX.
System generalised method of moments (GMM) results

<table>
<thead>
<tr>
<th>Independent variable</th>
<th>CBM&amp;A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Growth</td>
<td>2.136 (0.04)</td>
</tr>
<tr>
<td>IntRate</td>
<td>12.981 (2.53)**</td>
</tr>
<tr>
<td>SPrice</td>
<td>−1.400 (−1.28)</td>
</tr>
<tr>
<td>CPIIndex</td>
<td>−1.149 (−3.36)**</td>
</tr>
<tr>
<td>M2</td>
<td>−10.213 (−1.42)</td>
</tr>
<tr>
<td>CDist</td>
<td>6.785 (2.15)**</td>
</tr>
<tr>
<td>AssetS</td>
<td>0.437 (1.03)</td>
</tr>
<tr>
<td>TraLink</td>
<td>−0.001 (−0.00)</td>
</tr>
<tr>
<td>CBM&amp;A (t-1)</td>
<td>0.237 (1.24)</td>
</tr>
<tr>
<td>Constant</td>
<td>0.383 (0.03)</td>
</tr>
<tr>
<td>Wald test</td>
<td>1,474.14</td>
</tr>
<tr>
<td>AR(1) test (p-value)</td>
<td>2.10 (0.036)</td>
</tr>
<tr>
<td>AR(2) test (p-value)</td>
<td>1.24 (0.214)</td>
</tr>
<tr>
<td>Hansen J (p-value)</td>
<td>6.14 (0.50)</td>
</tr>
<tr>
<td>Diff-in-Hansen tests (p-value)</td>
<td>2.69 (0.61)</td>
</tr>
</tbody>
</table>

**Notes:** See Table I for the full definition of variables. Volume of CBM&A is dependent variable. The standard errors robust to heteroscedasticity are reported in the parentheses. Wald statistic tests the joint significance of estimated coefficients; asymptotically distributed as \(\chi^2(\text{df})\) under the null of no relationship. AR(1) and AR(2) are the first- and second-order autocorrelation of residuals, respectively; which are asymptotically distributed as \(\mathcal{N}(0,1)\) under the null of no serial correlation. Hansen J is the test of over identifying restrictions, asymptotically distributed as \(\chi^2(\text{df})\) under the null of instruments’ validity. We tested for the endogeneity of share price using the “Difference-in-Hansen” statistic, for which the null hypothesis states that lagged differenced instruments used for the equations in levels are exogenous. *, **, ***Significant at the 10, 5 and 1 per cent levels, respectively.
knowledge and skills in culturally diverse locations. We also find that home country macroeconomic policies play an important role in explaining the CBM&A outflows by the Chinese firms rendering support to \( H_1, H_2, H_5, H_6 \) and \( H_7 \). On the influence of national culture, our results suggest cultural distance has a positive bearing on Chinese CBM&A formation—a view consistent with the conclusions drawn by Very et al. (1996), Morosini et al. (1998), Anand et al. (2005) and Chakrabarti et al. (2009). Our regression results suggest that strategic asset seeking exerts significant influence on CBM&A outflows and the results appear consistent with the Chinese government's "go abroad" policy which encourages Chinese firms to seek strategic resources abroad.

6.1 Theoretical implications
In contrast to prior studies which have focussed on host country macroeconomic variables, the current study provides evidence of the effects of the home country macroeconomic, strategic asset seeking and cultural variables on EME international expansion decisions. The results suggest that government support to EMEs to acquire strategic assets and economic policies in the home country play an important role in shaping international expansion behaviour of EMEs through CBM&A. More importantly, the study demonstrates that outward investments of EMEs are partly a function of the level of economic policies and government support at home. This finding also implies that emerging country government policy can leverage support to EMEs in their process of global expansion and competition thereby supporting the political economy view of FDI which suggests that government and home country policy environment matter for a firm's investment strategies. Regarding the effects of culture, this paper enriches the institutional perspective and indicates that cultural distance impacts on Chinese international market expansion in the global market.

6.2 Managerial and policy implications
The policy implication is that home country macroeconomic policies and institutions do not only influence CBM&A outflows but also shape international expansion and market entry strategies of Chinese firms. The results imply that economic policies at home spur the process of internationalisation and growth of EMEs thereby helping policy makers to determine the effectiveness of their economic policies. The results also imply that Chinese government support for firms going abroad to seek resources that China lacks in order to bolster the nation's competitive advantage is in the right direction and lead to an increase in CBM&A outflows. We suggest senior managers charged with the responsibility of making international expansion decisions in an attempt to secure strategic and other marketing resources such as new brands, product development and extension to gain competitive advantage should pay attention to cultural and home country macroeconomic policies.

Although this study focusses on China, the findings have implications for other emerging economies given the significant and similar macroeconomic policies have taken place in most emerging market countries, particularly, BRIC countries. While this study contributes to the growing stream of research on EMEs by testing whether macroeconomic and cultural factors drive international expansion of emerging market enterprises, its limitation should be noticed. The limitation is that most of the Chinese CBM&A transactions in this study took place in Asia/Pacific countries. More studies appear warranted. Further studies should examine whether a cross-section of emerging countries with high growth rates as latecomers in the global market for corporate control would generate similar results consistent to what we found in our examination of Chinese firms.

Note
1. Establishment mode encompasses acquisitions and greenfield.
References


Peng, M.W. (2009), Global Strategy, South Western Cengage Learning, Mason, OH.


Further reading


**Appendix. List of target countries**

United Arab Emirates, Australia, Belgium, Barbados, Bahrain, Canada, Cayman Islands, Cyprus, Czech Republic, Germany, Denmark, Finland, France, Great Britain, Greece, Hong Kong, Ireland, Israel, Italy, Japan, Korea, Luxembourg, Macao, Mauritius, Malaysia, The Netherlands, New Zealand, Panama, Philippines, Poland, Portugal, Russia, Saudi Arabia, Singapore, Sweden, Thailand, USA, British Virgin Islands, Vietnam, Samoa, South Africa.

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Multi-country collaborative innovation in the internationalisation process

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Kedge Business School, Marseille, France, and
Alkis Thrassou
University of Nicosia, Nicosia, Cyprus

Abstract
Purpose – The purpose of this paper is to operationalise the collaborative cross-border innovation process employed by multinational corporations in their effort to penetrate new markets.

Design/methodology/approach – The paper is based on the case study of a leading European telecommunications group (OPERACOM). Methodologically it relies on 32 interviews, observation and secondary data analysis, and is theoretically founded on an extensive (mostly narrative and partly meta-synthetic) literature review.

Findings – The findings show that two new activities merit inclusion in the collaborative cross-border innovation process: strategic marketing anticipation and pre-opportunity studies. In this context, three strategic marketing levers are elucidated: subsidiaries’ knowledge integration, communication/coordination mechanisms, and collaboration-governance; interrelating on the way the activities and elements comprising the breadth and depth of the process’ continuum.

Research limitations/implications – These stem from and are inherent to the very nature of the research (case study), which precludes generalisations. Additionally, the research’s long-term span subjects the results to some inevitable potential temporal distortions.

Practical implications – The research findings, owing to their detailed and activity-specific disposition, constitute a case prototype towards further and/or corresponding application to organisations of this and/or other industries; presenting executives with an existing and market-tested positive paradigm of the innovation aspect of the collaborative market-entry mechanism.

Originality/value – Carrying significant scholarly and executive value, the research substantially and specifically enhances the understanding of innovation as an integral part of the internationalisation process, describing and prescribing explicit processes and actions throughout the horizontal and vertical organisational axes.

Keywords Knowledge, Telecommunications, Europe, Innovation process, Collaborative cross-border innovation, Foreign market entry, International marketing strategy, Multi-country innovation

Paper type Research paper

Introduction
Understanding cross-border collaborative entry modes stems from the identification and comprehension of the critical factors involved therein. This research, focussing on one such critical factor (cross-border innovation), studies, comprehensively refines, and develops the corresponding process; interrelating on the way the activities and elements comprising the breadth and depth of its continuum.

Research context
In contemporary business, international markets are an integral part of the life of a growing number of firms (Czinkota and Ronkainen, 2013). Inexorably, the number of cross-border collaborative partnerships (mergers and acquisitions (M&A), joint ventures (JVs), strategic
alliances, etc.) has significantly increased since the mid-1990s (Ahammad et al., 2012; Gomes et al., 2011; Rossi et al., 2015) in different business sectors. Czinkota et al. (2009), for example, explored the foreign market-entry modes of US business schools. They highlighted the importance of a clear international market-entry strategy for the educational institution to choose among licensing, franchising, JV, or full equity investment modes. The market strategy can be affected by the political (P), economical (E), and social (S) conditions (Whitelock and Jobber, 2004). Chiao et al. (2010) found that the entry mode choice depends on many factors: the firm-specific assets, the international experience, the investment in a foreign market to satisfy a certain customer category, the firm’s sleekness of complementary assets abroad, and the perceived institutional differences between a firm’s home country and the host country. They further concluded that the entrant entity should have a good understanding of the target market and a structured communication strategy.

Daniels et al. (2009) identified the JV as a type of popular ownership among international companies in which more than one organisation owns a company. This type of collaborative entry mode can help to share knowledge (culture differences and business systems), cost, and risk. For some countries, such as China, it is sometimes the only way for a foreign company to penetrate a market (Bresciani et al., 2015; Hill, 2009). However, conflicts may appear between partners because of disparities in their bargaining power and control issues.

Another cross-border collaborative entry mode, for the purposes of this research, is the M&A operation. Researchers are paying more and more attention to M&A (Gomes et al., 2013; Junni et al., 2015a; Sarala et al., 2014; Tarba et al., 2012), but many M&A underperform in spite of their growing numbers (Gomes et al., 2011). Many factors have been identified as underlying this phenomenon, including the individual and group reaction to changes and national and corporate cultural distance (Hill and Birkinshaw, 2014; Weber et al., 2011), for example. This research, however, still focuses on one part of the process (pre-acquisition or post-acquisition phase).

Using a processual approach, Gomes et al. (2013) identified the main critical success factors associated with the whole cross-border M&A process. For the post-acquisition phase, which constitutes this paper’s focus, specific factors were identified as important, including integration strategies, post-acquisition leadership, speed of implementation, the post-merger integration team, communication, and the management of corporate and national cultural differences. In the post-acquisition phase, cross-border innovation constitutes a particular challenge because the acquiring and acquired units should collaborate to satisfy simultaneously the needs of the individual markets and the strategic marketing aims of the international group, all within a marketing system that engulfs the wide-ranging spectrum of knowledge, management, processes, structures, cultures, and so on of the constituent organisations (Kauppila, 2010; Styhre and Sundgren, 2005; Thrassou et al., 2012).

**Aims, findings, value, and structure**

This research is descriptive and qualitative and answers the following question: “While venturing abroad, how can multinational corporations effectively collaborate with their acquired firms in order to innovate”? In answering this question, the paper operationalises the collaborative cross-border innovation innovation process employed by multinational corporations in their efforts to penetrate new markets. Characterised by global-local arbitrage and significant involvement of strategic partners and acquired firms, such processes have the merit of encouraging the development of multi-country innovations. Through a detailed case study of a French telecommunications group, this paper highlights the importance of creating specific activities to encourage acquired firms to contribute to the global innovation process.

The findings show that, in the context of internationalisation, the classic innovation process is insufficient. In the post-integration phase, the acquiring company should gain the
commitment of the acquired firm to get global innovation. This paper highlights the importance of creating new activities through which acquired firms can generate added value. Two main activities merit inclusion in the global innovation process: strategic marketing anticipation and pre-opportunity studies. In this context, to facilitate collaboration with the acquired firm, three strategic marketing levers are studied and highlighted: the acquired firm’s knowledge integration, communication-coordination mechanisms, and collaboration-governance. The results further demonstrate the way in which these levers evolve throughout the entire innovation process.

The value and contribution of this paper stem from its detailed research on the chosen case (OPERACOM), its long-term span, which follows the case from implementation to maturity, and the consequent elucidations regarding innovation and adjacent systems as cross-border collaborative market-entry modes. Specifically, the study of OPERACOM reveals a positive paradigm whose unique global innovation processes result in the development of new “multi-country” services capable of simultaneous commercialisation in several markets. The case study presents an excellent example of collaborative partnership across organisations and countries, within a wider and explicitly designed strategic marketing context that produces a practicably effective, and efficient international market-penetration system. Of further significant scholarly and executive worth, the research substantially and specifically provides new insights to innovation as an integral part of the collaborative internationalisation process, describing and prescribing explicit processes and actions throughout the horizontal and vertical organisational axes.

The paper initially undertakes a narrative literature review towards the construction of its theoretical foundation, injected throughout the work with more targeted meta-synthetic analysis. The methodology section ensues and, thereafter, the findings, starting with the description of the new multi-country innovation process. Subsequently the findings on the international strategic-integration phase, the adaptive market pre-opportunity studies phase, and the international commercialisation phase are presented. The findings are then discussed to distil their meaning and essence to finally draw scholarly conclusions and executive implications and to prescribe future research on the subject.

**Theoretical foundation – a narrative literature review**

*Innovation in collaborative market-entry strategies*

To enter new international markets, multinational corporations face two important strategic decisions: foreign direct investment establishment and/or ownership-mode strategies. These corporations have to decide whether to acquire an existing enterprise (acquisition), build a new start-up (greenfield investment), or create a JV with a local partner (Arslan et al., 2015). M&As are considered to be one of the important mechanisms for the growth and internationalisation of firms (Almor et al., 2014; Sarala et al., 2014). To ensure high acquisition performance, the integration between the acquiring and acquired firms should be considered carefully (Yahiaoui et al., 2016). Future performance can be affected by different factors such as strategic agility (Junni et al., 2015a,b) and cultural distance (Weber et al., 2011).

Innovation is considered to be a good indicator of the acquisition’s performance. In recent years, an increasing number of studies have examined the process used by large groups to develop new products for both local and international markets (Doz et al., 2001; Doz and Wilson, 2012; Zander and Sölvell, 2000). Certain researchers have stressed the importance of developing such a process in order to benefit from global networks (Birkinshaw, 1998; Ghoshal and Bartlett, 1988; Subramaniam and Venkatraman, 2001), and others have attempted to study the characteristics of these process, including their structure, actors, and organisation (Doz et al., 2001; Doz and Wilson, 2012; Elenkov et al., 2005; Jansen et al., 2012; Subramaniam, 2006). Despite focusing especially on the complexity of managing
innovation in an international context and the importance of its development (Dachs and Pyka, 2010; Flynn et al., 2003). Very few studies have succeeded in operationalising this process. Several questions, in fact, remain to be answered, such as “Which activities make up the global innovation process?” “How do the actors’ roles (Lavie et al., 2010) evolve in each of these activities?” “What types of knowledge does each firm bring to each activity?” and “How do the communication mechanisms evolve throughout the process?”

In one of their more recent works, Doz and Wilson (2012) have attempted to provide some answers to the above questions by examining the innovation process in its entirety. This research develops the ideas of these authors by proposing a detailed examination of the characteristics of each activity in the process. After describing the new global structure of the process, it focuses on three main components of each activity: the knowledge to be integrated, the actors’ roles, and the communication mechanisms.

Taking a step back in the narrative review, the ability to increase international sales volumes while also reducing costs has long been identified as one of the key challenges facing major groups (Ghoshal and Bartlett, 1988; Harzing, 2000). The question, however, is no longer simply whether to standardise or adapt (Boddewyn et al., 1986; Vrontis et al., 2009); companies instead need to successfully find an equilibrium between these two tensions (Bartlett and Ghoshal, 1989; Birkinshaw, 1998; Vrontis et al., 2009; Zander and Sölvell, 2000). Centralised (central for global) or local (local for local) processes have gradually given way to globalised processes (Bartlett and Ghoshal, 1989; Doz and Wilson, 2012). These are called hybrid processes, during which the different actors (parent company, subsidiaries, partners, acquired firms) interact and transfer and pool their knowledge to design, create, and develop a new “multi-country” product that is launched simultaneously on several different markets. This new type of process, which illustrates the transnational strategy employed by multinationals, has been examined by a number of researchers.

In order to operationalise the transnational innovation process, Subramaniam and Venkatraman (2001) introduced the notion of the “sprinkler strategy”, whereby multinationals develop products that “contain both features that are standardized across markets and features that are responsive to individual markets” (p. 360) simultaneously for multiple markets. Although their research provides us with little information on the actual functioning of the global innovation process, it does highlight the importance of the simultaneous nature of international product development (Hui Li and Huang, 2012). Doz et al. (2001) had previously made an initial attempt at operationalisation with their “metanational” model. This model shows that the simple international projection of knowledge (and innovations) from the parent company is a real “handicap” for innovation. To remedy this situation, three key phases for exploiting this globally dispersed knowledge are proposed: “sensing” (prospecting for globally dispersed strategic knowledge and opportunities based on the network developed), “mobilising” (mobilising knowledge owners as “magnets” by creating a common language and performance measures), and “operating” (operationalisation by developing operating lines and global functions based on “think local, act global” (Park and Vanhonacker, 2007). This model takes into account the different levels at which knowledge is integrated, albeit it sheds little light on the nature of this knowledge and on the governance applied.

Knowledge as an international market-entry tool to innovate
Knowledge transfer is critically important for value creation, both for the acquirer and for the target of a cross-border M&A (Ahmad et al., 2016a). In fact, in the pre-acquisition phase, acquirers can try to identify where potential complementarities are located in the target firm and create incentives to retain employees with complementary skills (Sarala et al., 2014). This has been founded on resource- and knowledge-based arguments, highlighting that the firm’s resources and its knowledge, particularly, determine value
creation in acquisitions (Juni et al., 2015b). The resource-based view conceptualises firms as bundles of heterogeneously distributed resources and capabilities (Barney, 1991). Competitive advantage can be achieved through resources that are valuable, rare, imperfectly imitable, and non-substitutable. Knowledge, in particular, is considered to be the most important resource of the firm (Grant, 1996). Firms can achieve higher performance with intangible, idiosyncratic, and non-substitutable knowledge.

Knowledge complementarities create unique combinations for the acquirer and the target firm that are more difficult for competitors to imitate (Juni et al., 2015b). This knowledge complementariness can be useful to achieve high-innovation performance (Juni et al., 2013). Doz and Wilson (2012) added to this reflection by positioning dispersed knowledge at the heart of the new innovation process. For these authors, companies should not project their innovations via local adaptation. Instead, they should capture the most useful international market knowledge and integrate it into the innovation process. Integrating knowledge is therefore a strategic driver for developing dispersed (Doz and Wilson, 2012) and agile (Wilson and Doz, 2011) innovations. The authors identify three types of knowledge: explicit, embedded, and existential:

1. **Explicit.** Codified, modular, complementary, and transferable via a common language, this knowledge stems from scientific research and discovery. This approach is known as “attracting”. Its integration in the innovation process appears to be relatively easy, with little resistance or evidence of the “not-invented-here” (NIH) syndrome. This exchange of knowledge may create added value in terms of substitution (cheaper production, for example).

2. **Embedded.** Linked to local contexts, observable but difficult to define precisely, this knowledge must be well understood. It is for this reason that Wilson and Doz (2011) suggest a flexible approach, known as “foraying”, based on identifying and dispatching “scouts” to companies that have produced new knowledge. The role of these actors is to understand the feasibility in the country of origin. To achieve this, site visits are essential: local experts present their work in the country of origin and the scouts travel to the site to understand the technology as developed in its local context.

3. **Existential.** Systemic and linked to the local context, norms, and behaviours, this type of knowledge is complex and does not belong to any given group. Its integration in the global innovation process stems from what Wilson and Doz (2011) refer to as “experiencing”. Examples may include the creation of a local innovation centre. In this context, bicultural (or multicultural) managers could be asked to act as relays. This diversity may reduce the cultural distance (Mayrhofer and Roth, 2007) and facilitate the absorption (appropriation) and elucidation of knowledge arising in different contexts.

These three knowledge types are essential for developing “multi-country” innovations. Although not detailed with regards to each activity within the process, the typology does enlighten scholars and managers as to the diversity of knowledge to be integrated and the actions to be implemented in this context. Doz and Wilson (2012) position this approach within a global framework in which the optimum integration of knowledge is achieved via three main actions: the innovation footprint, communication, and collaboration (Figure 1).

**Optimisation of the international marketing innovation footprint, communication, receptiveness, and collaboration**

Doz and Wilson (2012) maintain that networks should be developed based on the localisation of critical knowledge. The company should, thus, begin by mapping the
network of critical knowledge before selecting locations, which requires a significant amount of agility and flexibility. The authors have identified five pre-determinants of the size and dispersion of the footprint: the knowledge required, strategic choices, organisational ability, corporate culture, and company history.

In order to integrate knowledge into the global innovation framework, several obstacles need to be overcome: lack of receptiveness, unsuitable communication tools (technologies), differences in context (structure, culture, norms, language), and complexity of knowledge. To do this, the authors emphasise the importance of diversifying communication methods. From a technological point of view, communities of practice, workflows, online forums, and videoconferences can facilitate the global exchange of knowledge. These tools need to be completed by organising face-to-face meetings, transferring “key” managers between the different company sites, using a common language, ensuring senior manager support, involving bicultural, cosmopolitan managers, temporarily co-locating teams, as well as developing a corresponding internal marketing mix (Vrontis et al., 2010). These people-based mechanisms build up trust between managers while also reducing potential tensions and misunderstandings. Applying these to M&As, Junni et al. (2015b) found that acquirer knowledge transfer contributed to performance following the acquisition. Many factors can facilitate this transfer between the acquirer and the acquired firm, such as the sociocultural interfim linkages (complementary employee skills, trust, collective teaching, and cultural integration) (Sarala et al., 2014), HRM, social capital (team meetings, shared language) (Aklamanu et al., 2016), collective commitment (cultural acceptance and cultural learning) (Junni et al., 2015a, b), and planned employee retention (Ahmad et al., 2016b; Zhang et al., 2015).

In terms of co-developing innovations, collaboration needs to be optimised among the different global sites and actors. On this topic, Doz and Wilson (2012) have identified three phases for defining global projects: identification, definition, and delivery:

1. Identification consists of collecting ideas (of different natures) sourced from different locations and functions. Open-mindedness, dialogue, and trust are needed to move from the idea to the design concept.

2. Definition consists of answering the question “Who does what?” Staffing should be organised according to the capability of each team rather than the team’s availability. Informal communication, site visits, and temporary transfers are crucial for finding a consensus and defining the details of the project (architecture, interface, organisation of activities, reporting structure, stability, etc.). This enables all contributors to understand the project (Wilson and Doz, 2012).
(3) Delivery represents the beginning of the project’s real operations. In this phase, the implication of the different sites varies. A site leader should be appointed in order to coordinate the different actors (internal and external) (Wilson and Doz, 2012).

As emphasised, few studies have attempted to operationalise the global innovation process. Subramaniam (2006) highlights the importance of three factors – transnational teams, transnational communication, and transnational collaboration – but does not provide details on these factors. The contribution of Doz and Wilson (2012) has the additional merit of proposing practical lessons to managers on the nature of dispersed knowledge (explicit, embedded, and existential), communication methods, and collaborative phases.

These factors although characterising the entire process, evidently merit more detailed examination for each activity, because they help firms, and especially the acquirer, to identify new opportunities of innovation. According to the dynamic capability perspective, the acquirer should have the ability to identify a target and use its knowledge to help merging firms renew or transform their resource bases continuously in a changing environment (Juni et al., 2015b; Teece et al., 1997). The limited attention to these factors in existing literature thus constitutes a discernible gap in knowledge. The research’s theoretical foundation and its consequentially established need to develop this framework have thus led to a formulation of the main research question:

**RQ1.** While venturing abroad, how can multinational corporations effectively collaborate with their acquired firms in order to innovate?

This primary question subsequently and naturally gives rise to sub-questions:

**RQ1a.** Which activities make up the global innovation process?

**RQ1b.** How do the actors’ roles evolve in each of these activities – especially regarding the acquirer firm?

**RQ1c.** What types of knowledge does each firm bring to each activity?

**RQ1d.** How do the communication mechanisms evolve throughout the process?

The research was, thus, designed and executed towards best answering these questions, as hereafter described.

**Research methodology – the OPERACOM case study**

**Research design**

Considering the exploratory nature of this study, it was deemed important to make an in-depth analysis of the global innovation process within an international group that was experiencing the development of “multi-country” innovation.

This paper builds theory within a relatively new area and adopts the case study as a valid research approach, which is considered especially appropriate in such contexts (Eisenhardt, 1989). The case study is a research strategy that focusses on understanding the dynamics present within single settings. This research has partly applied Eisenhardt’s (1989) theory, which supports that theory-building research begins “as close as possible to the ideal of no theory under consideration and no hypotheses to test” (p. 536). And though (Eisenhardt admits) this is practically impossible to achieve, attempting to approach this ideal is important because preordained theoretical perspectives or propositions may bias and limit the findings. “Thus, investigators should formulate a research problem and possibly specify some potentially important variables, with some reference to extant literature” (p. 536). This approach bears the strengths of the likelihood of generating novel theory, because creative insight often arises from the juxtaposition of contradictory or paradoxical evidence, that the emergent theory is likely to be testable with constructs that
can be readily measured and hypotheses that can be proven false, and that the resultant theory is empirically valid because the theory-building process is so intimately tied with evidence that it is very likely that the resultant theory will be consistent with empirical observation. This research’s design, though, also considered the potential weaknesses of a possible yielding of theory that is overly complex or narrow and idiosyncratic and unable to raise the level of generality of the theory. In view of the theoretical and practical contextual factors of this research, therefore, this research has applied the case study methodology partly through the theory-building approach.

The study is based on the case of OPERACOM, an international telecommunications group and leader in the French market. Throughout the early and mid-2000s, in order to establish a European presence, the group implemented an increasingly internationally focussed strategy based on acquiring and creating a number of subsidiaries. In fact, OPERACOM created its own subsidiaries in several countries, such as Spain, Germany, and the UK. In other countries, such as Poland, it acquired a local firm and named it POLCOM. OPERACOM acquired POLCOM through a multi-billion Euro deal to boost its international development and benefit from its technological know-how. Indeed, POLCOM was one technological step ahead of France regarding the MPEG4 technologies (this standard specifies the techniques that deal with the contents of sequences including one or more audio-video objects) as well as the UMTS (the third-generation telecommunication standard used in Europe and based on W-CDMA technology). The acquisition of POLCOM by the OPERACOM group thus favoured its growth because it benefited from a new market and the synergy of a complementary technology.

In this context, the implemented integration process focussed on two main steps: discovery and rationalisation. Discovery lasted a year and allowed POLCOM to become familiar with OPERACOM’s activities as well as its innovation strategy and so on. Numerous exchanges and meetings were held with that aim. Meanwhile, the French managers were engaged in a consolidation process to identify the key competences within POLCOM with its transformation into a centre of excellence in mind. For this purpose, two French managers were appointed as expatriates in Poland. Subsequently, the rationalisation phase was put in place to enable OPERACOM to use the know-how of POLCOM managers. It is within this framework that POLCOM started participating in the global innovation process that was designed and driven by OPERACOM. At the beginning, managers of both entities faced several problems, which were resolved through mutual communication and trust.

Despite this burgeoning development, “the results of the group fell short of its investment”, as emphasised by one R&D manager interviewed. An audit performed several years later showed that the services developed by the parent company in France were difficult to market in certain countries. This observation and the desire of the parent company to benefit from the expertise of its subsidiaries led senior management to design the NExT plan (“new telecom experience”). This plan involved reorganising the group by country, gradually phasing out the divisions (internet, mobile, and landline), integrating the information systems and the networks linking the countries, and creating new structures. The aim of these changes was to revitalise the innovation process and give the international group the competitive marketing edge it was seeking to begin with.

This company background thus shows the case to be a good opportunity to operationalise the collaborative cross-border innovation process, its activities, the roles of actors involved in each activity, the type of knowledge integrated, and the way they integrate with each other.

**Data collection**

In order to understand the specific characteristics of this new process, an exploratory study based on three series of (16, 9, and 7) interviews and secondary data analysis was performed
(Eisenhardt, 1989; Yin, 2009) within this single case study. In fact, there is a lack of prior research on the operationalisation of the global innovation process and the factors related to each of its activities, so an exploratory case study methodology (Eisenhardt, 1989) enables “an extensive examination of a single instance of a phenomenon of interest” (Hussey and Hussey, 1997, p. 65). Moreover, this qualitative approach was deemed to be the most appropriate regarding questions of the how and why nature (Stewart et al., 1994; Yin, 2009).

In the first data collection phase, 16 semi-directive interviews took place with parent company managers in France. These managers act upon the global innovation project and were able to describe the different phases of the new innovation process. The interviewee’s profiles are detailed in Table I. These interviews were conducted following the implementation of the various international strategic marketing changes and lasted about 90 minutes each. They addressed the following issues: the key phases for constructing a new innovation process, managing (decision making and coordination), structures, the actors involved, and the knowledge exchanged between the parent company and its subsidiaries. To address the confidentiality issues surrounding this project, the data sources were increased to also include several internal documents produced by the parent company to inform its employees about this new project, and meetings between the group’s strategic marketing division and certain local unit’s managers were attended.

Because the information collected was essentially sourced from the parent company, it was deemed scientifically proper that it should be completed through interviews with international actors. Thus, in order to record the latter’s opinions and perspectives and to better understand the new, continually evolving innovation process in its longer-term maturity, a second series of interviews were performed. In total, nine additional interviews were performed with managers sitting on the various newly created boards and who are involved in the multi-country innovation process. Their profiles are shown in Table II.

<table>
<thead>
<tr>
<th>Interviewee’s role</th>
<th>IS integrator (IS partner)</th>
<th>Inventor, developer, ergonomist, designer, quality</th>
<th>Marketing partner (P)</th>
<th>Middle management (marketing R&amp;D)</th>
<th>Strategic marketing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Division</td>
<td>Network and information system R&amp;D</td>
<td>Explocentre</td>
<td>Technocentre</td>
<td>Technocentre</td>
<td></td>
</tr>
<tr>
<td>Number of interviews</td>
<td>1</td>
<td>7</td>
<td>2</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Note:</td>
<td>Explocentre is a structure tasked with identifying and assessing new ideas</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Structure</th>
<th>Country product board (CPB)</th>
<th>International product board (IPB)</th>
<th>International marketing board (IMB)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Number of interviews</td>
<td>3</td>
<td>3</td>
<td>3</td>
</tr>
<tr>
<td>Profiles of interviewees</td>
<td>1 R&amp;D manager (Polish-acquired firm, 3P team) 1 marketing manager (Polish-acquired firm, 3P team, ex-expatriate in France) 1 information systems manager (German subsidiary, 3P team, ex-expatriate in France)</td>
<td>1 R&amp;D manager (England, ex-expatriate in France) 2 country representatives (Poland and England)</td>
<td>1 marketing manager (Germany) 1 marketing manager (Poland) 1 marketing manager (Spain)</td>
</tr>
</tbody>
</table>

Table I. Profiles of the managers interviewed at the parent company

Table II. Profiles of the managers interviewed at the international structures
Each interview lasted for an average of 90 minutes. Interviewees who were involved in developing various multi-country services discussed their roles in the projects, the content of discussions between the different project participants, the difficulties encountered, and so on. Focussed attention was paid to the managers working in POLCOM, the acquired firm (four managers among six interviewed). The aim was to understand their commitment and contribution to the innovation process of OPERACOM.

Data analysis
As recommended by Miles and Huberman (1994), data analysis was performed parallel to the data collection phase. The recorded data were transcribed and then, using the latest Nvivo software, organised in terms of the structure of the new global innovation process and the conceptual categories to facilitate relating the information to the research questions and thus formulate conclusions (Ghauri and Gronhaug, 2002). For internal validity, a within-case analysis was conducted (Yin, 2009) that led to a comparison between the responses of interviewees from both units and a description of the knowledge exchanged, the actors’ roles, and the communication mechanisms used for the activity of each process. This description is also based on the literature review related to innovation and knowledge within international collaborative markets.

Finally, the implicative findings of this paper were designed and tested using seven experts’ interviews and reviews. Three of these (two industry, one scholarly) took place prior to the development of the research findings and contributed to the identification and interrelation of the concepts of the research; the remaining four (two scholarly, two industry) took place subsequent to the theory development, and the participants acted as post-developmental reviewers and refiners of the final work.

Theoretical research
The theoretical foundation of this work rests on an extensive narrative literature review. This method was applied because of its suitability in critiquing and summarising a relevant body of literature, drawing conclusions about the topic, and identifying gaps (Fink, 2010; Urquhart, 2011). It required a significant quality and volume of research, as well as a sufficiently focussed perspective; though, for practical purposes, this paper presents only the most relevant and substantive findings of the review. The theoretical part of the research, especially the more abstract aspects of linking marketing, strategy, and management, to some degree, also rests on a meta-synthesis literature review. This method was applied partially because of its suitability in integrating, evaluating, and interpreting findings of multiple qualitative research studies, in identifying common core elements and themes; and in involving, analysing, and synthesising key elements into a unified system (Fink, 2010; Urquhart, 2011). It is also based on a significant quality and volume of research but largely rests on a smaller number of relevant conceptual models identified in the past to have a sufficiently focussed perspective.

Research limitations
The research limitations stem from and are inherent in the very nature of the chosen methodology. Specifically, the primary research is qualitative and single case study based; as such, it is confined to a single organisation or industry, which proscribes generalisations and presents a sample selection bias (Campbell and Stanley, 1966) that can be overcome only with a wider sample and a cross-case analysis. Additionally, the research’s long-term span, which follows the case from implementation to maturity, though constituting a significant value of the work, also subjects the results to inevitable potential temporal distortions.
Research findings – towards a new multi-country innovation development process

For several years, new telecommunications services (video on demand, integrated TV, telephone, internet, etc.) were developed exclusively by the parent company. Via a process centralised in France, a team of marketing managers and engineers was responsible for comparing customer needs with existing technologies (or technologies to be developed) in order to design the various services.

As part of the NExT plan, accelerating the time to market remained the key priority. As a result, new structures were created progressively in order to support the evolution of the new global marketing innovation process. The first, an “explocentre” was established to act as an incubator for high-innovation concepts, which have high potential but also high risk. Several months later, the group set up the first technocentre. Similar to Renault’s technocentre in the automotive industry, the objective of OPERACOM’s technocentre (also known as the “product factory”) was to industrialise innovative service offerings. Working in project mode, three-partner, or “3P”, teams (marketing, R&D, and information systems) were responsible for designing and developing new services.

According to the interviewees, eight months were spent educating POLCOM, the acquired firm, about these new structures (created in France), after which the global process was launched in a test phase. Local technocentres were set up in each of six countries (France, Poland, Spain, England, Oman, and Abidjan). After three months of exchange as part of a project led by the parent company, certain managers on the group’s strategic marketing board (SMB) (composed of managers from the various OPERACOM entities) felt that it was necessary to structure the exchanges around the POLCOM’s suggestions. Accordingly, a new strategic anticipation technocentre (SAT) was created. Also based on the 3P mode, anticipation time to market (A-TTM) became an integral part of the innovation process, aiming to consolidate innovation projects at an international level. Given the specific characteristics of each local context, some managers from Poland suggested establishing an additional pre-opportunity study. This study was integrated into the innovation process and aimed to test services on a local basis. All of these new structures, whose activities will be detailed later, played a role in restructuring OPERACOM’s innovation process. More precisely, strategic anticipation and the pre-opportunity study were designed to encourage subsidiaries to participate in developing global innovations that can maximise market penetration and establishment at individual-market level:

A multi-country project delivers a product to two or more countries using group and country resources […] The country TTM projects complete country-specific deliverables and local deployment in order to launch the product in the market (extract from a memo circulated during the exchange meeting).

As shown in Figure 2, the exploration activity is the starting point for the process. The new business concepts are explored before opening up the process to other units (partners, acquired units, etc.) concerned with the project.

In order to consolidate ideas, acquired firms can contribute at several levels. Afterwards, according to the maturity of the idea, the concept is tested in several countries before being developed and commercialised. The structure of the multi-country innovation process is far from linear, with the continual toing and froing among the different activities and the exchanges between actors with different backgrounds complicating the process considerably. In order to understand this complexity, the following section details the activities that make up the innovation process, focussing particularly on three main aspects of each activity (see also the theoretical research section): the knowledge to be integrated, the actors’ roles, and the coordination-communication mechanisms. The points are focussed on
Figure 2. OPERACOM’s new global innovation process

IMR 34,1
to ensure that the chosen approach is consistent with the framework developed by Doz and Wilson (2012), which will shed new light on the evolution of these parameters throughout the whole innovation process continuum.

Research findings – the international strategic A-TTM phase
_Forming part of the SAT the A-TTM was designed to enhance idea-generating networks in order to consolidate new service projects proposed by the parent company. This pooling of individual countries’ service use needs was achieved through detailed study of the main technical attributes of the projects:_

 Several countries may contribute to the same project […] All of the ideas are put into the melting pot, and then each country structures a local A-TTM informing everyone else about each project (strategic anticipation manager, marketing).

_Strategic anticipation work, which lasts six months on average, is not linear. In the first four months, considerable effort is put into marketing the project. After several iterations, the team is put together and the consolidation work can begin, which may last two months. According to one manager interviewed, this activity is designed to avoid the NIH syndrome at the acquired firms. By blurring the psychological barriers, POLCOM, for example, felt more involved in the initial activities of the innovation process._

*International knowledge integration in A-TTM*
_In order to investigate potential service offerings, the group launched interaction and negotiation phases with the whole global network. By coding the interviews, four categories of knowledge systematically exchanged during strategic anticipation projects were identified:*

1. _the group’s global strategy (fit of the proposed offering with the group’s existing portfolio of services);_

2. _the technical structure of the offering in each country (network and infrastructure of each country and knowledge related to the terminals, such as initial technical specifications, design, industrial partners, and service-terminal integration);_

3. _use structure in each country (attributes of the service offering, customer knowledge, such as technical tests and changes in use); and_

4. _general information about each local market (competition, target customer base, etc.)._

_These knowledge categories showed that the interactions among the different members of the network and the parent company essentially related to the needs and propositions of each participant in the global project. The statements of the managers interviewed converged on the importance of each acquired firm’s willingness to participate, motivation, and entrepreneurial outlook. In their opinion, the exchange of knowledge during the anticipation phase aimed to fine-tune service offerings to local needs, consolidate the group’s road map, and improve visibility. Of the managers interviewed 80 per cent considered strategic anticipation to be a necessary pre-design phase for innovative service offerings._

*The international actors’ roles in A-TTM*
_A project team was mobilised in the SAT for each service concept. These teams included an R&D manager, a marketing partner, and a third network and information systems partner, giving rise to the “3P” (three partners) team name. In order to discuss matters with the countries and to collect information on local needs and propositions, this team worked together with country “interfaces”. Known as “country representatives”, these were appointed by each unit (acquired firm and own subsidiaries) in function of the specific characteristics of*
each project. They worked in the “country delivery” structure and were initially responsible for exchanges with the subsidiaries regarding the group’s strategy.

A group anticipation board was established to structure exchanges with the countries during the anticipation activity. It was composed of various actors: the different country representatives, the 3P team running the project, and the strategic marketing manager in the parent company. This board continually exchanged with a country anticipation board, primarily composed of each country’s representative and a local 3P team. The objective of this exchange was to assess the progress of the activity and to outline future plans. Various external parties could also take part in the anticipation activity alongside the parent company and the actors involved in the project, with interviewees specifically highlighting the role played by suppliers of models and prototypes.

Cross-country coordination and communication in A-TTM

In addition to the described characteristics, mobilising the network (own subsidiaries and acquired firms) was a key element for successful anticipation. Most of the managers interviewed underlined the importance of the acquired firm’s willingness to participate, which implies that participation is not obligatory. For example, monthly meetings were held with the various managers of POLCOM in order to look into potential new services. Several interviewees highlighted the importance of face-to-face contact in order to properly understand local suggestions and needs. The 3P team, also known as the “3P steering board”, was responsible for bringing together the various country representatives for such meetings. This approach meant that many potential misunderstandings were avoided.

To address the problem of the geographical distance between participants, some meetings were performed via conference call or video conference. In these cases, the managers emphasised the importance of using English as the common language for all exchanges. This approach enabled the middle managers (of the French parent company) to interact with international laboratories and the different countries in order to gather new ideas.

Research findings – international markets pre-opportunity studies phase (T-1-T0)

Pre-opportunity studies are the second activity in the process of transforming ideas into innovative service offerings. More specifically, they form the first phase of the process of industrialising the group’s innovations. Once the country needs have been identified and the potential service offerings consolidated, the pre-opportunity study is launched:

Between T1 and T0, the business line, the country and the technocentre, marketing side, jointly analyse the opportunity: potential revenues, sales and margin on each local market, as well as the impact on distribution channels, the communication plan, and the marketing mix for each country (marketing manager).

For each multi-country project, the pre-opportunity study lasted about two months before the global business plan was finalised. According to the managers interviewed, this plan included the knowledge exchanged among the various participating units of the network.

Knowledge to be integrated across markets in the pre-opportunity phase

In describing this activity, the managers interviewed emphasised the importance of the interaction between the technocentre project team (parent company in France) and the different countries involved in the project. Through the coding of the collected information, the knowledge highlighted by the managers was grouped together into four categories:

1. commercial feasibility of the service offering (estimate of market potential and revenue potential, business model, impact on the marketing mix, target in local market);
(2) technical feasibility of the service offering (technical analysis and costs, local infrastructure and network, standardisation);

(3) local market characteristics (degree of local competition, regulation, characteristics of local market); and

(4) local subsidiary characteristics (availability of local resources, positioning of group and subsidiary in country).

These highlight the diversity and, above all, the specific characteristics of the knowledge exchanged during the pre-opportunity study. Integrating this knowledge into the project was achieved via an assessment phase that compared the feedback from the different countries involved in the global project.

The international actors’ roles in the pre-opportunity phase

In order to ensure continuity with the strategic anticipation phase, the pre-opportunity study should be run by the parent company technocentre (or the local technocentre if the project is being run locally). In this case, the same 3P team initially formed in the anticipation phase continued its exchanges with subsidiaries and acquired firms. For the acquired firms, the commitment needed to be explicit. For this reason, fewer local units are involved in the actual project compared to the anticipation phase. According to the managers at the technocentre in France, this may be explained by the availability of resources, the maturity of the local market, or incompatibilities among participating actors (conflicts, tensions, etc.). Some managers highlighted, for example, the existence of some tensions between the subsidiary of OPERACOM in Spain and some acquired firms, such as POLCOM.

Various structures were created alongside the actors working on the global innovation project. As shown in Figure 3 and extracted from the Nvivo analysis, during this activity, the project’s governance was clearly defined among the different actors of the global project:

- The international product board (IPB). The board is composed of managers from the parent company, country representatives, and the international R&D laboratories. These are mobilised as centres of excellence in tightly defined technological domains (network, usage). The objective is to transfer their knowledge on the technical feasibility of the pre-design service. During the pre-opportunity study, this board is responsible for decision making.
The international product marketing board. This board is composed of marketing managers from the parent company and units involved in the global project. During the pre-opportunity study, these managers are merely informed of the project’s progress and are not involved in any way in making decisions.

Group SMB. This board is composed of five marketing managers working in the group’s various business units at the parent company in France. During the pre-opportunity study activity, these managers are also informed of the project’s progress but are not involved in making decisions in any way.

The country product board (CPB). This type of board is set up locally and includes marketing, information system, and R&D managers involved in the project in each local market. During the pre-opportunity study activity, these managers are consulted for their advice on the feasibility of the service and the progress of the global project.

These structures complement the role played by the steering board (3P team) that was initially created during the strategic anticipation activity and responsible for leading the project’s pre-opportunity study activity.

Cross-country coordination and communication in the pre-opportunity phase
Workshops were organised during the pre-opportunity study so that each country could make its voice heard at the technocentre. In addition to the workshops, some managers mentioned that business travel and site visits by managers to each local market were important. To address the high cost of business travel, monthly conference calls and videoconferences were also organised.

Additional mechanisms were implemented, alongside the country representatives and the business lines, to ensure coordination and encourage exchange. These were essentially formalised, standardised project files drafted in English:

The country delivery brings together building blocks from the whole technocentre to develop actual customer propositions for the countries to ensure accelerated and successful delivery of technocentre products across countries, to coordinate the global management for the technocentre major programmes and projects with NC&IT and R&D, to anticipate opportunities and risks, and to provide a unified market vision, filter, and select new growth opportunities (document extract).

The managers have emphasised that the project files for the pre-opportunity study contained summarised information on the project leader and the milestones, deliverables, standards, and allocation of resources. Finally, “enablers” were built – “poolable product components” that included the subsidiaries’ needs (based on strategic anticipation) and their constraints (via the pre-opportunity study).

It should be noted that this new pre-opportunity study activity represented a strategic phase of the global innovation process. The exchange of different local constraints helped to build a shared reflexion process and to ensure better global collaboration and economies of scale. In this context, each local unit, even acquired firms involved in the project, undertook a local pre-opportunity study before submitting the results to the parent company technocentre. This international synchronisation of knowledge was an “input” for the design-development activity.

Research findings – international design and development activity (T0-T2)
As shown in Figure 4, the design and development activity commenced once the pre-opportunity study was completed. Nevertheless, the process was not linear. Iterations among the different phases were performed in order to consolidate the new service offerings.
Multi-country collaborative innovation

Figure 4. Detailed design and development activity
Knowledge to be integrated in the design and development activity

The analysis of the information collected shows that the group made use of varied types of knowledge to industrialise its services:

- design, development validation, and specification know-how;
- ergonomics, standardisation, and development of enablers; and
- knowledge related to integration of terminals and services (the service process).

This information underlines the diversity of the knowledge necessary to design and develop a new telecommunication service. The knowledge itself was sourced from the different actors mobilised in terms of their skills and was integrated by the technocentre steering board after being validated by the international product board.

International actors’ roles in the design and development activity

As for the previous multi-country innovation process activities, the technocentre (3P) project team (the steering board) formed the central hub for designing and developing global services. This hub was responsible for mobilising content suppliers and industrial partners. These latter were chosen by the parent company, subsidiaries, and acquired firms as part of the “top sourcing” programme during the anticipation process. The group used this programme for many years to achieve economies of scale. Alongside this board, certain international laboratories were solicited by the parent company for their expertise. For this purpose, OPERACOM senior management clearly distinguished between research and development.

As for the pre-opportunity study activity, governance of design-development was allocated to the different actors involved. The information collected shows that the governance systems were similar for these two activities. The IPB was responsible for go/no-go decisions for multi-company project milestones. The country representatives, who participated on this board, approved these decisions (milestones and resource allocation) on behalf of their country. The CPB prepared each country’s contribution at the milestone reviews. The 3P steering board ran the project. The contributors (subsidiaries, acquired firms, marketing, network and information systems, support functions) and the CPB were consulted, and they frequently participated in projects. Finally, the SMB and the IMB were continually informed of the progress of the various projects.

Cross-country coordination and communication in the design and development activity

At the technocentre, project teamwork was the primary method of transferring the described knowledge. In this context, coordination was essentially performed using milestones, planned standard deliverables, reverse planning, and a culture of commitment (meeting deadlines). In addition, the different board members interviewed emphasised the importance of involving local managers in the technocentre during the design-development phase. This approach aimed to create co-located teams that continued the project in France.

Research findings – the international commercialisation phase

The deployment and commercial launch were the last stages of the global innovation process for multi-country services. Within the framework of a controlled delegation granted to the countries, the local 3P team was responsible for organising deployment methods, revenues, and the marketing mix (media plan, packaging, distribution network, organising the sales forces). According to the managers, all of these aspects should be prepared, under the governance of the CPB, at the outset of the pre-opportunity study activity. In this last step of the global innovation process, some managers of POLCOM highlighted the higher control opted by the parent company on their acquired firms compared to the other units.
Continuous reporting about the sales methods and volumes was asked by the French managers:

If you don’t bring the country on board at the beginning of the process, you are going to run into trouble at the T2 and T3 stages [...] While the technocentre is building the service between T0 and T2, the country is preparing for battle (middle manager, SAT).

**Knowledge to be integrated in international commercialisation**

The deployment and local launch of multi-country services are based on several dimensions: deployment methods, revenues, and the marketing mix (media plan, packaging, distribution network, organising the sales forces). All of the managers emphasised the importance of sequentially launching multi-country services in each foreign market. In this context, they underlined that a first version was launched for an initial group of countries (or for one country). A second version (V2) of the service offering was then developed, especially by the acquired firms, based on the feedback received. For this reason, learning is an essential component of the commercial launch of multi-country services.

**International actors’ roles in commercialisation**

On a local level, each 3P team that contributed to the project since its inception was responsible for deployment and launch activities in its own market. For the technocentre’s operations in France, three partners (R&D, marketing, and network and information systems) supported the project locally. The autonomy granted to the local units during the innovation’s deployment and commercial launch phases changed the governance rules of the multi-country process. In fact, the T3 and T4 milestones were individually planned and approved for each country. The CPBs were made responsible for go/no-go decisions and the IPB was informed and was no longer responsible for these. Instead, it recorded the decisions made by the CPBs. The IPB was consulted via a change request for any change in objective (T3/T4), functionality, or price:

The 3P team remains “responsible” for multi-country project progression through T3 and T4 and informs the international product board of any decisions and issues (extract from the governance chart for the process).

Figure 5, prepared using Nvivo software, summarises the governance characteristics of the deployment and commercial launch activity for multi-country services.

**Cross-market collaboration and communication in commercialisation**

Conscious of the need to learn about country delivery modes, the managers emphasised that the country representatives ensured coordination and communication. Conference calls, videoconferences, and occasional face-to-face meetings were organised, permitting each local unit to report the results of local deployment of the offer and local sales force organisation.

![Governance system for commercialising multi-country services](image-url)
Drawing on the factors developed previously, it is important to emphasise the complexity of implementing a global innovation process, with the structure, the diversity of the actors, and the geographical and cultural distances only further complicating project management (see Table III).

<table>
<thead>
<tr>
<th>Length</th>
<th>Objective</th>
<th>Strategic anticipation</th>
<th>Pre-opportunity study</th>
<th>Design/development</th>
<th>Local commercialisation</th>
</tr>
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<tbody>
<tr>
<td></td>
<td></td>
<td>6 months</td>
<td>2 months</td>
<td>4 to 6 months</td>
<td>6 months</td>
</tr>
<tr>
<td></td>
<td></td>
<td>To consolidate the innovation project</td>
<td>To test the consolidated idea on each market involved and to transfer results</td>
<td>To industrialise multi-country services</td>
<td>To commercially launch the multi-country service at a local level (sequential launch by group of markets)</td>
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<table>
<thead>
<tr>
<th>Position of subsidiaries</th>
<th>Knowledge integrated</th>
<th>Actors' roles and governance</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>An anticipation board (3P, French technocentre) exchanges with a local 3P team via the local representatives</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Governance shared between several boards: The international product board (IPB) is responsible for milestone achievement decisions (the country representative, a member of this board, validates decisions and resource allocation) The international marketing board (IMB) and the strategic marketing board (SMB) are informed of progress The country product board (CPB) is consulted (plays a contributory role)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Run by the same 3P anticipation board</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Change in governance rules: The international product board (IPB) is simply consulted The international marketing board (IMB) and the strategic marketing board (SMB) are informed of progress The country product board (CPB) is responsible for launching decisions</td>
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<tr>
<td></td>
<td></td>
<td>Additional telephone conferences</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Central role of country representative</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Organisation of workshops, face-to-face contact</td>
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<td></td>
<td></td>
<td>Importance of site visits of the French 3P team to each local market involved</td>
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<tr>
<td></td>
<td></td>
<td>Use of formalised, standardised project files</td>
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<td></td>
<td></td>
<td>Use of a common language: English role of country representative</td>
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<tr>
<td></td>
<td></td>
<td>Organisation of meetings (conference calls, videoconferences, workshops)</td>
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<td></td>
<td></td>
<td>Importance of the 3P teams from each country in the French technocentre: co-located teams</td>
</tr>
</tbody>
</table>

**Table III.**
Summarised characteristics of the activities making up OPERACOM’s global innovation process
This complexity was particularly visible in terms of the knowledge exchanged, the communication mechanisms employed, and the governance rules that continually evolved from one activity to another. This evolution is analysed in the following section to further develop and complete the analysis framework of Doz and Wilson (2012).

Discussion
The innovation model implemented by the OPERACOM group presents a viable cross-border collaborative entry mechanism that achieves better arbitrage between global demands and local specificities as per Bartlett and Ghoshal (1989) and Park and Vanhonacker (2007). The analysis of this model shows the diversity of the activities that make up the process. It is found that the classic activities of any innovation process (research, exploration, design and development, and commercial launch) as well as two activities specifically created to enable acquired firms such as POLCOM contribute to the process – strategic anticipation and the pre-opportunity study. Within this framework, the interaction between the parent company and its local units, the transfer of the local firms’ knowledge, and their integration in the process appear to be real levers for action and international market development.

Knowledge exchanged and integrated in the international process
Once an innovative new idea and the related new technologies have been identified, the actors focus on accessing the diverse knowledge of the different subsidiaries involved in the multi-country project. The case of acquired firms, in particular, shows that POLCOM participated in each activity of the process. By exchanging its knowledge, its managers had a real added value to consolidate each project. Doz et al. (2001) consider that mobilisation, and consequently “assessing” access, depend on the complexity of market- and technology-related knowledge. Indeed, analysing the characteristics of the knowledge to be mobilised in each activity shows that local needs and commercial information arise from strong market-related knowledge. Results linked to technological know-how are generally technical in nature (e.g. network specificities). Furthermore, the results show that the knowledge to be integrated in the process varies from one activity to another. During strategic anticipation, for example, knowledge is strongly related to local customer behaviour such as customer needs, uses and preferences, specific characteristics of the local market, and so on (Thrassou, 2007), whereas the pre-opportunity study requires the transfer of knowledge relating to the commercial and technical feasibility of the service offering and its compatibility with the local market. Design and development require specific know-how (specification, validation, etc.) and cutting-edge expertise, while commercialisation is driven locally by each subsidiary. The latter communicates their marketing approach and their results (media plan, packaging, distribution network, methods of organising the sales forces) to the rest of the group.

Comparing these characteristics to the work of Wilson and Doz (2011) enables classification of the knowledge exchanged during the anticipation phase as embedded, given the strong link to the local context. For the pre-opportunity study, knowledge can be embedded (characteristics of the local market and subsidiary) and above all existential (local feasibility, norms, etc.). It is possible therefore to highlight the variety of embedded knowledge and its evolution from one activity to another, giving rise to the distinction between contextual knowledge related to the subsidiary and knowledge related to the local market. For the design-development activity, the typology of Wilson and Doz appears less appropriate. In fact, the knowledge integrated is highly specific (contact with local manufacturer, specifications, etc.) and could be classified as “industry knowledge”. For commercialisation activities, the knowledge is explicit (Doz and Wilson, 2012). This knowledge is far from static given that it is progressively enhanced by the acquired
firms (Juni et al., 2015b) and can therefore be classified as “evolutive knowledge”. All of these characteristics clearly show the permanent interaction among the different phases and the evolution, in certain cases, of the same types of knowledge from one activity to another.

Collaboration within the global network

As emphasised in the first part of this study, penetrating the international markets demands a capability to develop multi-country products, itself commanding the optimisation of the collaboration among the different organisational sites around the world. Some are owned by OPERACOM, such as in Spain and the UK. Others are acquired, such as POLCOM. Doz and Wilson (2012) have identified three phases necessary for all global projects: identification, definition, and delivery. The analysis of this study’s results shows that these three phases cannot be applied to the process as a whole but should instead be examined with regards to each of the innovation process activities: identifying actors, defining roles, and actual operations (delivery). This is clearly seen through the evolving governance of OPERACOM’s projects, with the roles of the various boards (CPB, international product board, strategic and international marketing boards) continually evolving through various roles as “director”, “manager”, “informed”, and “consulted”. Particularly, it was noticed that POLCOM, as an acquired firm by OPERACOM, participated in different projects, similar to the other units. This can be explained by the maturity of the Polish market and the strategic technological knowledge it had.

Cross-market communication and coordination mechanisms

As one of the most critical factors of success in any market-entry collaborative mode, communication and coordination mechanisms constitute the second strategic lever for steering the global innovation process. Country mobilisation is based on local entrepreneurial spirit, motivation, and willingness to participate. Middle managers play an important role in this context in terms of encouraging their team’s commitment to the project. Putting together a head team for each project, made up of partners from R&D, marketing, and network and information systems, is also a key requirement for actors to mobilise. Supported by co-located teams (composed of expatriates and bicultural managers), this steering board gradually builds mutual trust among the managers from the different units, especially the acquired firms (Sarala et al., 2014).

This research shows that this is particularly true during the initial activities in the process. In fact, in contrast to the aforementioned authors, the present study has the merit of detailing the evolution of the communication mechanisms throughout the entire process (Table IV). The results also highlight the importance of site visits and face-to-face contact in the strategic anticipation and pre-opportunity study phases, especially with the acquired firm POLCOM. As the project advanced, the site visits became less frequent, giving way instead to formal procedures and workshops. Conversely, the country representative remained the common thread from the beginning of the project to the end, and may be considered to be a “scout” – to use the terminology of Wilson and Doz (2011).

A focussed recapitulation

Drawing on the factors developed in the previous section, the collaborative elements of “integrating country-sourced knowledge”, “diversity of communication and coordination mechanisms”, and “varied roles played by the actors” constitute critical factors of success in cross-border market entry and development. In addition, it is found that these three strategic levers continually evolve to encourage the development of multi-country innovations.
Continuous dialogue with the acquired firm, especially, is therefore highlighted as a source of diverse ideas, generating added value across the international strategic market-entry process continuum through accelerated transformation of ideas, verification of the suitability of each local actor’s strategy (and the characteristics of his or her environment), improved pooling of efforts between countries, a consolidated group “road map”, and improved visibility. Nevertheless, certain aspects may impede this optimisation approach, including poor local resources, the maturity of the local market, or incompatibilities among participating subsidiaries (conflicts, tensions, etc.). To avoid these potential obstacles this research concurs with the Wilson and Doz (2011) findings that advise the mapping of the key knowledge network before selecting locations.

**Conclusions, implications, and further research**

**Scholarly conclusions**

Recounting the efforts by businesses across the globe to enter new markets, often as the inescapable means towards survival and growth, this research focusses on the critical factor of innovation and its role in the cross-border collaborative market-entry mechanism. Based on the premise that traditional innovation processes are no longer adapted to the development of multi-country products, the research responded to the imperative of examining the structure of global innovation processes and their strategic levers (Birkinshaw, 1998; Doz et al., 2001; Subramaniam, 2006; Zander and Sölvell, 2000). In line with the works of Wilson and Doz (2011) and Doz and Wilson (2012), this research proposes a tentative operationalisation of a global innovation process regarding the participation of various actors (acquirer, acquired firm, own subsidiaries). More important, though, it goes far beyond the overall reflections of the aforementioned authors to respond to the following significant questions:

*RQ1a.* Which activities make up the global innovation process?

*RQ1b.* How do the actors’ roles evolve in each of these activities – especially regarding the acquirer firm?
RQ1c. What types of knowledge does each firm bring to each activity?

RQ1d. How do the communication mechanisms evolve throughout the process?

The findings of the research, based on a case study of OPERACOM, a leading European telecommunications service provider, show that in the context of a collaborative entry mode, two activities need to be included in the classic innovation process. First, strategic anticipation consolidates innovative service offerings by collecting cross-border local units’ propositions and needs. Second, the pre-opportunity study encourages inclusion of the results of local feasibility tests into the international market-entry process. These two activities can help develop a mutual knowledge transfer between heterogeneous local actors such as acquired firms and own subsidiaries.

In addition to examining the structure of the process, this research also has the merit of emphasising the evolution of the strategic levers throughout the process. In fact, this study shows that the knowledge integrated at the beginning of the process is essentially embedded and very contextual in nature. Subsequently, this knowledge evolves from existential to explicit via “industry” knowledge. The latter, which is not addressed in the typology of Wilson and Doz (2011), is exchanged during the design-development activity. The second lever is the collaboration between actors. The research finds that each activity making up the process is characterised by three key phases: identifying the actors, defining the roles, and actual operations. This means that the various actors involved in the co-development of multi-country innovations see their roles evolve in one way or another, leading to changes in governance. Turning to communication and coordination mechanisms, the last lever studied, the research shows that informal mechanisms tend to be used at the beginning of the project (site visits and business trips, co-located teams, etc.). Team meetings and shared language (English) seem to be necessary to integrate the acquired firm into the global network (Aklamanu et al., 2016). Formal mechanisms (standardised documents, workshops, etc.), however, are more often employed in the later stages of the project, without forgetting the important role played by the country representatives in building mutual trust between the actors and reducing misunderstandings.

Overall, the research has substantially and specifically enhanced the understanding of innovation as an integral part of the internationalisation process, describing and prescribing explicit processes and actions throughout the horizontal and vertical organisational axes.

Executive implications
The research findings, though predominantly scholarly in nature, also give rise to elucidations of significant executive worth. Because of their detailed and activity-specific disposition, the research findings, in effect, constitute a case prototype useful for further and/or corresponding application to organisations in this and other industries. This research’s scholarly findings present executives with an existing and market-tested positive paradigm of the innovation aspect of the collaborative market-entry mechanism. The practical application of the paradigm, nonetheless, to other organisations, industries, and markets cannot be direct or in the form of imitation. The specific processes and actions implemented by OPERACOM were the result of careful and explicit consideration of the characteristics, attributes, resources, and competences of the parent company, the individual local units, the countries and markets involved, and the wider strategic context governing all. As such, the direct replication of this prototype in other organisational and/or industry contexts is neither wise nor feasible. Instead, executives are called on to draw from this case study its wider frame of strategic marketing thinking, the specific aspects that are potentially applicable to their own case,
and the scholarly research’s explicit and prescriptive findings. All are valuable tools that are helpful in the development of companies’ own corresponding innovation mechanisms towards cross-border market entry.

Further research

Further research is called for in three separate directions. First, and contextually, the case study approach that proved so valuable in this research can and should be used, albeit in differing contexts, to provide an understanding of corresponding processes of market expansion in other organisations, sectors, and geographic regions. Second, empirical research across the latter shall provide the data necessary to generalise the findings and to test, validate, refine, and develop the findings further. Third, further research can focus on the individual components of the findings towards refinement and/or identification of second-level sub-processes, with the impact of cultural proximity between the actors in the internationalisation process being a particularly interesting area. The case study itself has not been exhausted, and further research may collect more data on the case and apply a quantitative methodology. A valuable aim would be to generalise the findings through a structural equation modelling.

The present research findings may, in fact, be used largely as propositions for this further research. The described cross-border collaborative entry mechanism is a proposition in itself, calling for further testing of its better arbitrage between global demands and local specificities (P1). Another proposition is that in addition to the classic activities of any innovation process (research, exploration, design and development, and commercial launch) two additional methods need to be specifically created to enable acquired firms to contribute to the process: strategic anticipation and the pre-opportunity study (P2). Regarding the knowledge to be integrated in the collaborative internationalisation process, it is proposed that it varies from one activity to another, as previously described (P3). Elaborating on the latter it is further proposed that – using the Wilson and Doz (2011) typology – the knowledge exchanged in the anticipation phase is embedded (P3a); in the pre-opportunity study knowledge it can be embedded and above all existential (P3b); in the design-development activity the integrated knowledge is highly specific and could be classified as “industry knowledge” (P3c); and in the commercialisation activities, the knowledge is explicit and evolutive (P3d). With regards to collaboration within the global network, it is proposed that the three phases necessary for all global projects – that is, identification, definition, and delivery (Doz and Wilson, 2012) – cannot be applied to the process as a whole but should instead be examined with regards to each of the innovation process activities: identifying actors, defining roles, and actual operations (delivery) (P4). Regarding cross-market communication and coordination, this research has proposed (see Table IV) the detailed evolution of the corresponding mechanisms throughout the entire process (P5). Additional propositions also may be drawn from the critical factors of success, the strategic levers, and potential impediments to the process as previously discussed.

Epilogue

Transcending the scientific analyses and findings of this research it is evident that understanding cross-border collaborative entry modes comes from the identification and comprehension of the critical factors involved therein. This research, focussing on one such critical factor (cross-border innovation), has comprehensively refined and developed the corresponding process across its continuum; interrelating on the way the activities and elements comprising its breadth and depth. The findings are quite explicit and equally important. Their application, nonetheless, is conversely open to interpretation according to the contextual and organisational elements of each individual case. Scholars and practitioners are thus called on to use this enhanced knowledge on the subject and pay due respect to the multiplicity of factors involved, both in the evolution of the knowledge itself and its application.


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Standardization versus adaptation of global marketing strategies in emerging market cross-border acquisitions

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Abstract
Purpose – The recent increase in the presence of emerging market firms (EMFs) in global markets requires a closer examination of their international marketing strategies (including branding). The purpose of this paper is to examine the factors behind the standardization or adaptation of global marketing strategies adopted by EMFs for their cross-border acquisitions.

Design/methodology/approach – This paper examines the determinants of the marketing strategies adopted by Indian and Chinese firms for their cross-border acquisitions. The drivers of the standardization/adaptation of marketing strategies (including branding) are identified using both quantitative data collected in 168 cross-border acquisitions conducted by the EMFs mentioned above and the institutional theory and organizational identity literature.

Findings – Institutional factors have a stronger effect than organizational identities on global marketing strategies, including branding. The standardization of the EMFs’ marketing strategies is driven by the private statuses of the acquirers, legal distances, target countries’ economic development, and the ethnic ties that exist between the home and host countries. The acquirers’ decisions to retain the targets’ brand identities, thus adapting their global marketing strategies, are related to the cultural distances, economic freedom distances, and sizes of the targets.

Research limitations/implications – In this study, two large emerging markets – India and China – are used to gather the empirical data; future works can expand upon this line of research and examine other EMFs.

Practical implications – The acquiring companies have to decide whether to adopt an adaptation marketing strategy, with reference to the acquired targets’ local stakeholder requirements, or to incorporate their targets’ brands into their own global marketing strategies.

Originality/value – Typically, previous work on the adaptation vs standardization of global marketing strategies adopted in the wake of cross-border deals has focussed on acquisitions involving companies from developed countries; this paper extends the field of research to the EMFs of two of the most important developing countries: China and India.

Keywords Marketing strategy, Branding, Standardization, Adaptation, Cross-border acquisitions, Emerging markets firms

Paper type Research paper

Introduction
In this paper, we examine the motivations underpinning the global marketing strategies adopted by emerging market firms (EMFs) in their cross-border acquisitions and elucidate the different factors that lead to either the standardization or adaptation of their global marketing strategies in the post-acquisition period.

The growth of EMF cross-border acquisitions has led to a closer examination of their acquisition processes, post-acquisition performances, and post-acquisition integrations (Buckley et al., 2007; 2012; Gubbi et al., 2010; Li, 2007; Nicholson and Salaber, 2013, 2014; Rao-Nicholson et al., 2015; Yaparak and Karademir, 2010). Research into the standardization/adaptation strategies adopted by EMFs in the branding of their acquisitions in order to streamline their global marketing strategies is pertinent as EMFs try to mitigate any
“latecomer” issues in the international business world by acquiring incumbent firms in both developed and developing markets. EMFs also acquire relevant strategic assets, including brands, and marketing and distribution channels (Li, 2007; Luo and Tung, 2007; Makino et al., 2002; Mathews, 2002; Rui and Yip, 2008; Yaprak and Karademir, 2010). The standardization/adaptation strategies (Demetris et al., 2009) adopted in the branding of cross-border acquisitions also relates to EMFs’ adoption/non-adoption of global marketing strategies (Kumar, 2009).

In developed country contexts, standardization is based on financial gains and competitive advantages, whereas adaptation is driven by location-specific requirements which outweigh economics of scale (Zou and Cavusgil, 2002). Particularly, the arguments for and against the standardization of global marketing strategies are based on two key factors: cost savings and enhanced value. Both these factors are driven by considerations of market homogeneity (Szymanski et al., 1993; Zou and Cavusgil, 2002). Yet, in spite of the growth of EMF cross-border acquisitions, there is limited research on the determinants behind standardization/adaptation of their global marketing strategies. For example, EMFs will typically suffer from liability deriving from their foreignness and from the perceptions of their countries of origin (Salomon and Wu, 2012; Zaheer, 1995). Thus, in this study, the decision to adapt to/standardize the targets’ brands with respect to those of the EMFs forms the focus of an empirical investigation aimed at answering the following research question:

**RQ1.** What drives EMF decisions to standardize/adapt their global marketing strategies in the aftermath of their cross-border acquisitions?

The personalities and identities of multinational companies are determinants of consumer choice between their products and those of other companies (Eales, 1990). The core of a business’s projected image is its brand identity, which is reflected by its adopted name, logo, colour, slogan, and typography (Melewar and Saunders, 1998). The decisions towards the adoption of branding standardization/adaptation strategies have stimulated considerable interest among academics and others with regard to the formulation of appropriate international marketing strategies (Cavusgil and Zou, 1994; Chung et al., 2012; Demetris et al., 2009; Jain, 1989; Okazaki et al., 2006; Theodosiou and Leonidou, 2003). For example, Rosson and Brooks’ (2004) study found that, in 80 per cent of cases, the targets assumed the acquirers’ brand identities. In those exceptional cases in which the targets’ brand identities were maintained in the post-acquisition period, the factors underlying such decisions related to the fact that the targets operated as autonomous subsidiaries or were major brand entities.

Earlier studies on emerging markets typically looked at the entry of developed markets’ firms into them (Aysegul et al., 1991; Grosse and Zinn, 1991; Hoskisson et al., 2000), while little attention was given to the international marketing strategies adopted by the EMFs in their cross-border activities (Aulakh et al., 2000; Salwan, 2009; Zou et al., 1997). In spite of the rapid globalization and growth of international trade and cross-border acquisitions, the cultural barriers to both business and consumer activities are still all pervasive (Whitelock and Pimblett, 1997). These issues can be assumed to be highly pertinent for EMFs, which may face liabilities of foreignness and of country of origin in foreign markets (Salomon and Wu, 2012; Zaheer, 1995). Kumar (2009) illustrated how the acquisition of foreign firms led one Indian aluminium company, Hindalco, to obtain knowledge of the industry’s value chain and to develop the ability to brand products and distribute them to both vendors and business-to-business customers. Similarly, Tata Tea Ltd’s acquisition of Tetley Tea, a 160-year-old British company, helped it establish the Tetley brand in more countries than before (Pradhan and Abraham, 2005). Through this acquisition, Tata was able to access global tea markets as well as Tetley’s brand, technology, and expertise. Yet, there is limited literature on the determinants behind EMF decisions to retain the brand
identities of their acquisitions in the post-acquisition period. Thus, this paper fills this gap in the extant literature on the determinants of the standardization vs adaptation of EMFs’ global marketing strategies in their cross-border acquisitions.

This study contributes to the extant literature in three important ways. First, it establishes a link between acquirer and target organizational identities and the standardization/adaptation adopted by EMFs to align their global marketing strategies. Previous studies have examined EMFs’ global marketing strategies in the context of greenfield investments and exports (Zou et al., 1997). Yet, EMFs have also emerged as the leading companies engaging in the cross-border acquisitions (Buckley et al., 2007; Kumar, 2009; Nicholson and Salaber, 2013; Rao-Nicholson et al., 2015); thus, this paper provides a valuable insight to understand how organizational-level attributes could drive companies’ global marketing strategies. Second, this paper identifies the relationship between the institutional factors that impact the targets’ branding standardization/adaptation strategies. This work links to other cross-border studies that relate company-level strategies to institutional factors (Albaum and Tse, 2001; Auh and Menguc, 2009; Zou et al., 1997) and extends their scope to reflect the impact of institutional factors on acquirer global marketing strategies in the post-acquisition period. Third, this study demonstrates that institutional factors have a stronger impact on target branding decisions than both acquirer and target organizational identities. Thus, the liability of foreignness and of country of origin arguments have a much higher resonance in the decision-making process in terms of the EMFs’ adoption of standardization/adaptation marketing strategies (including branding).

Literature review

Post-acquisition integration

Post-merger integration (PMI) is vital for the success of cross-border mergers and acquisitions (M&As). Most M&As fail due to poor integration; it has been suggested that culture and identity-related issues play central roles in their high failure rate (e.g. Drori et al., 2011; Nahavandi and Malekzadeh, 1988; Weber et al., 2012). For instance, Drori et al. (2011) reported cultural clashes occurring in the wake of M&As involving high technology start-ups. Culture and identity issues could also affect the transfer of marketing-related knowledge between the merging entities (Drori et al., 2011), and identity issues have been suggested to play an important and vital role in the PMI of companies, as boundaries are negotiated (Drori et al., 2013). Culture and identity-related clashes could potentially affect the standardization or adaptation of global marketing strategies following M&As. However, despite its contributions, prior research on PMI has largely neglected the factors that lead to the standardization or adaptation of marketing strategies adopted during the M&A integration phase (e.g. Homburg and Bucerius, 2005; Sinkovics et al., 2014). This gap is even more glaring in the context of EMNEs M&As. Studies have noted the challenges emerging in customer relationships management following M&As (Degbey, 2015; Öberg, 2014). Scholars have documented the role played by marketing integration during M&As (Sinkovics et al., 2014). Research has also focussed on brand equity following M&A and whether the merging companies should retain their existing names or be jointly identified by that of the acquiring company (Lambkin and Muzellec, 2010). For instance, Lambkin and Muzellec (2010) showed that rebranding is useful for integrating the acquired company and has a positive association with employees and the merging of the companies’ stock market performances. Recent studies have noted that M&As may cause changes to business networks, particularly amongst customers and suppliers, and other actors that are part of the M&A (Degbey and Pelto, 2015). The above discussion suggests that, following M&As, the standardization or adaptation of marketing programmes could be crucial for the successful PMI of cross-border M&As.
Standardization/adaptation of the EMFs’ global marketing strategies

The extant literature has defined standardization in two different ways – first, the same marketing strategies are used in all markets, and second, the domestic marketing strategies are applied to foreign markets (Cavusgil et al., 1993; Samiee and Roth, 1992; Zou et al., 1997). For the purpose of this study, the standardization of the EMFs’ global marketing strategies means that the same marketing modes are applied to all markets (Kamel et al., 2010), while also being impacted by institutional factors (Irem et al., 2010). The degree of standardization of the EMFs’ global marketing strategies depends on organizational and environmental factors (Zou et al., 1997). Despite playing an important role in the post-integration stage, both the marketing strategies, and the targets’ post-acquisition corporate identities and cultures are short-changed in most post-acquisition studies (Melewar et al., 2013; Rosson and Brooks, 2004; Weber et al., 2011a, b). In this study, we are also keen to examine the standardization/adaptation of the targets’ visual identities, which are embedded in their brands, rather than considering the whole set of marketing tools available to the acquirers to structure their global marketing strategies (Demetris et al., 2009). The primary motive for this focus on brand visibility and standardization/adaptation is that most EMFs are viewed with some degree of suspicion (Aybar and Ficici, 2009) and the host stakeholders are likely to perceive any visible changes with considerable misgivings; more than they would by any soft changes made to the target organizations’ marketing departments, to the local positioning of the products, or to advertising campaigns. In addition, when they acquire developed market companies, EMFs face legitimacy issues, as some see the acquisition of strategic assets as the key motive behind their investments (Nicholson and Salaber, 2013).

Corporate or organizational brand identities are defined by the ways in which companies view themselves and by what others think of them. This is especially pertinent for EMFs, which have both foreignness and country-of-origin liabilities to contend with in foreign markets. Foreign market consumers, both individual and business customers, may be reticent to buy the EMFs’ products (Aybar and Ficici, 2009). Thus, the organizational brand identities of both acquirers and targets may drive the choice between the standardization or adaptation of the acquirers’ marketing strategies, which may also be affected by institutional factors (Zou et al., 1997).

At present, we do not know much about the relative importance of the roles played by institutional factors and organizational brand identities in company decisions on whether to standardize or adapt their marketing programmes in international markets. For the purpose of this study, we consider these two motivators as distinct channels driving standardization/adaptation in the post-acquisition period. Next, we describe both these channels separately, taking one from organizational identity literature and the other from institutional literature, and develop testable hypotheses based on our literature review.

EMF organizational brand identities

Tihanyi et al. (2003) argued that different types of institutional owners have different stakes in company strategies, and that contextual factors, such as boards, accentuate these differences. In the EMF context, the home countries’ institutional voids make effective company-level monitoring particularly important. Hence, some ownership identities that are uncommon in advanced markets are commonplace in emerging ones. The extant literature has noted the extensive role played by business groups in emerging markets (Guillen, 2000; Khanna and Palepu, 2000; Khanna and Rivkin, 2001; Maman, 2002; Yaprak and Karademir, 2010). The works on business groups in India have highlighted the important role played by these business entities in circumventing institutional weaknesses across various elements of the business ecosystem, such as the financial system and contract management. Thus, in the post-acquisition stage, EMFs that belong to business
groups are likely to standardize their marketing strategies across their newly acquired companies to reinforce the groups' brand identities.

Another key ownership brand identity in emerging markets is the ownership structure; for instance, government-owned or state-owned enterprises (Bremmer, 2009; Buckley et al., 2007; Li, 2007; Lu and Yao, 2006). The studies on the internationalization of Chinese firms have noted the role played by government policies (Cai, 1999; Chen and Findlay, 2003; Deng, 2007; Luo and Tung, 2007; Luo et al., 2010; Singh, 2009; Sun et al., 2012), as well as the soft internationalization loans that government-owned enterprises are granted for their cross-border activities (Nicholson and Salaber, 2013). Some of the companies are national icons and are tightly linked to their governments' brand identities (Wang et al., 2012). Whereas private business entities are typically free to make their strategic decisions free of governmental interference, state-owned organizations are, in many cases, the vehicles of government policies and are restricted from exercising the full breath of their strategic decision making. In the wake of their cross-border acquisitions, these EMFs are more likely to standardize their marketing strategies towards the target companies as this facilitates the easier implementation of their home governments' policies.

Many internationalizing EMFs are privately-owned and are not exposed to the same level of scrutiny as public listed ones. Following their cross-border acquisitions, these EMFs may want to retain the original nature of their business; in these cases, they are likely to curtail the targets' marketing strategies and streamline them by standardizing them to their own.

Thus, companies belonging to business groups with standardized marketing strategies will adopt strict standardization to reinforce group brand identities. Government- or state-owned companies will standardize their marketing strategies as this will enable them to seamlessly apply the policies of their main stakeholder. Finally, privately-owned companies are likely to adopt standardization of marketing strategies to align them with those adopted in their home markets. In all these three cases, organizational identities descending from the nature of their ownerships will drive marketing strategies; we argue that this will lead to the alignment of their targets' marketing strategies with those of the acquirers. In all three organizational brand identity cases mentioned above, EMFs will be expected to focus on standardizing their marketing strategies in the post-acquisition period. Hence, we posit that:

\[ H1. \text{ EMF organizational brand identity factors positively impact marketing strategy standardization.} \]

**Target organizational brand identities**

The reasons that may cause EMFs to allow their targets to retain their original brand identities can be linked to the value to the acquirers of the target brands or the EMFs' strategic decisions to operate their new acquisitions as stand-alone subsidiaries with their own unique identities. Rosson and Brooks (2004) found that, during the post-acquisition period, standardization was relatively common, with the targets adopting the acquirers' brand identities in 80 per cent of the cases. The exceptions, in which the acquirers decided to preserve the targets' brand identities and adopt adaptation strategies in the post-acquisition period, were typically motivated by the targets operating as autonomous subsidiaries or by their being major brand entities. Thus, in the case of EMFs, it can be argued that the strength of targets' assets will drive acquirers to adapt to local stakeholder demands and potentially lead to the adoption of adaptation strategies.

Kumar (2009) suggested that EMFs typically acquire global market companies to access new technologies, brands, and consumers. In this assessment, EMFs are usually low-cost commodity players, which acquire value-added branded-product companies in foreign markets. Thus, the value of the targets' existing brand identities can bring about the acquirers' decision to allow them to operate independently of their own. Also, EMFs prefer
not to interfere much in their new acquisitions’ management and may thus adopt a light-integration strategy, allowing them to operate independently in their own markets (Kumar, 2009; Liu and Woywode, 2013). For example, India’s Hindalco’s post-acquisition integration strategy for US can manufacturing company, Novelis, involved allowing the latter to operate under its existing brand name. Similarly, Chinese acquisitions, such as Shanghai Automotive Industry Corporation’s acquisition of MG in the UK and Geely’s acquisition of Volvo, did not result in the loss of the targets’ brand identities. Thus, in high technology sectors, the targets’ brand value is likely to dissuade the acquirers from adopting a standardization strategy for their global brand management.

From the above discussion, it can be argued that when a target’s organizational identity is stronger than or equal to that of the acquirer, the target is likely to experience a loose integration with the acquirer (Liu and Woywode, 2013) and retain the autonomy to pursue its own marketing strategies. Thus, EMFs are less likely to adopt standardization in their marketing strategies. Either the strength of the targets’ assets or their ownership of well-known brands make it likely that their unique organizational brand identities will prevent the acquirers’ from adopting standardizing global marketing strategies. Thus, we argue:

\[ H_2. \] The strength of the targets’ organizational brand identities will be negatively correlated to the acquirers adopting standardizing global marketing strategies in the post-acquisition period.

**Institutional and cultural factors**

Institutional factors have been demonstrated to impact company marketing strategies (Homburg et al., 1999; Zou et al., 1997). The central thesis of institutional theory is that company-level strategies and structures are embedded in the business environment and are affected by such environment’s legitimacy requirements (Friedland and Alford, 1991). Homburg et al. (1999) argued that both the state and the broader society can place pressure on companies to pursue one option rather than another via implied societal norms, regulations, and other factors. They also found that institutional factors account for variance not explained by other determinants commonly studied in marketing literature.

Studies of cross-border acquisitions enacted by developed country companies have found that these acquirers are more likely to engage in standardization (Brooks et al., 2005). Also, the acute liabilities linked to the foreignness of EMFs manifest themselves across institutional factors such as economic distance (Salomon and Wu, 2012). The differences between the formal institutions found in the EMFs’ home countries and those of the host countries can drive EMFs to identify any synergies made possible by cross-border economic status and regulatory differences. In this case, acquiring EMFs may decide to preserve their targets’ brand independence not only to assuage any potential conflict with host country stakeholders (Zou et al., 1997), but also to cater to both home and host country consumers. An example of this adaptation logic of EMF marketing strategies is provided by the cross-border acquisitions completed by Indian company Tata, which acquired premium brands such as Jaguar and Land Rover. In these cases, Tata decided to continue to market its targets’ products as independent brands rather than merging them all under Tata’s umbrella branding. This argument for adaptation to local situations also reflects the drawbacks linked to the adoption of standardizing marketing strategies, which imply placing the focus upon products rather than upon consumers and competitors (Zou et al., 1997). Hence, we argue that:

\[ H_{3a}. \] The institutional distances that exist between home and host countries are likely to negatively impact the adoption of standardizing marketing strategies by EMFs.
The branding of products and services is affected by cross-cultural differences; thus, companies need to be sensitive to effects that these may have in driving consumer perception of their products (Jun and Lee, 2007). Jun and Lee’s (2007) study of the top 100 South Korean and US companies found that brand-logos found in the former country tend to be more abstract compared to those prevalent in latter. This demonstrates the importance for EMFs to develop locally adapted marketing strategies.

On the other hand, the existence of cross-border ethnic ties will have a moderating effect upon any changes linked to brand cultural integration. Also, several challenges presented by country of origin liabilities can be mitigated by the presence, within the target’s country, of populations with ethnic ties to those of the acquirer (Kedia and Bilgili, 2015). In this particular situation, EMFs might engage in standardization strategies to leverage the benefits of scale inherent in a single global marketing strategy. Thus:

\[ H3b. \text{ Whereas cultural distance will negatively impact standardizing marketing strategies, the existence of historical and ethnic ties will positively impact them.} \]

Figure 1 shows the relationship between various stakeholders and EMF marketing strategies for their newly acquired targets.

Methodology
Sample selection
Cross-border acquisitions from China and India form this study’s empirical setting to examine the adoption of target brand post-acquisition standardization/adaptation by EMFs. We chose two large emerging markets, India and China, as they have different home country business environments, different historical and ethnic ties, and can traditionally be expected to have different approaches to the standardization/adaptation of the targets’ brands. In addition, these two markets are the largest brand acquirers in both the developing and developed country context. The data on the foreign acquisitions of Indian and Chinese companies were collected from the Thomson One database, which holds information on all global mergers and acquisitions. The data relating to cross-border acquisitions were collected for all those deals that met the following criteria: the deals were from China and India; the acquisitions had been completed; the acquirers owned majority stakes in the target companies after the acquisition; the targets were publicly listed companies. This data collection process leads to a set of 173 deals for which company-level
information on acquirers and targets was available. Chinese deals were more numerous than Indian ones and all had been completed between 1986 and 2014.

**Brand identity change (STANDARD).** Post-acquisition target brand standardization/adaptation was proxied by any changes in name, symbol, typography, and colour. The main analysis presented in this paper made use of the name change variable, whereas the other change variables were used for robustness checks. Although we could probably replicate the study using other proxies for the standardization/adaptation dimension – e.g., slogan – the results of our study would be likely to be the same since acquirers are likely to change all brand elements once they decide to replace the targets’ brands with their own.

The brand identity change data were collected from various sources, including both acquirer and target company websites, Nexis, and the OSIRIS database (which also provides company-level activity and financial information). This helped us identify whether the EMFs adopted standardization/adaptation strategies for their targets. The STANDARD variable, which is a dummy variable, takes value 1 if the target’s name was changed to that of the acquirer and 0 if the target retained its original name. For five deals, there was no information on whether the targets had undergone a name change or not; thus, these deals were excluded from further analysis. Table I provides information on the standardization/adaptation variable; we observe that around 44 per cent of targets underwent a post-acquisition change of name to that of the acquiring EMFs. Table II shows the top ten host countries in which the sample EMFs conducted cross-border acquisitions. We observe that Chinese firms typically engage in cross-border activities with Hong Kong (which, for the purposes of this study, is considered a different host destination as its institutional and cultural environment are different from those of mainland China), where they have strong ethnic ties. Indian firms, on the other hand, invest mostly in the USA, which is one of the largest global markets.

**Acquirer organizational brand identity.** In this study, the acquirer’s organizational brand identity is determined by its various company-level characteristics, such as membership of a business group (BUSINESS_GROUP), government ownership (GOV_OWN), and private acquirer (PRIVATE_ACQUIRER). Internationalizing Indian companies are traditionally

<table>
<thead>
<tr>
<th>Home country</th>
<th>STANDARD = 1</th>
<th>STANDARD = 0</th>
<th>Total</th>
<th>% STANDARD = 0</th>
<th>% STANDARD = 1</th>
</tr>
</thead>
<tbody>
<tr>
<td>China</td>
<td>51</td>
<td>74</td>
<td>125</td>
<td>59</td>
<td>41</td>
</tr>
<tr>
<td>India</td>
<td>23</td>
<td>20</td>
<td>43</td>
<td>47</td>
<td>53</td>
</tr>
<tr>
<td>Total</td>
<td>74</td>
<td>94</td>
<td>168</td>
<td>56</td>
<td>44</td>
</tr>
</tbody>
</table>

**Table I.** Summary details on the sample of emerging market firms

<table>
<thead>
<tr>
<th>Destinations</th>
<th>China Total deals</th>
<th>Destinations</th>
<th>India Total deals</th>
</tr>
</thead>
<tbody>
<tr>
<td>United States</td>
<td>52</td>
<td>United States</td>
<td>18</td>
</tr>
<tr>
<td>Australia</td>
<td>17</td>
<td>United Kingdom</td>
<td>6</td>
</tr>
<tr>
<td>Canada</td>
<td>17</td>
<td>Canada</td>
<td>3</td>
</tr>
<tr>
<td>United States</td>
<td>17</td>
<td>Germany</td>
<td>3</td>
</tr>
<tr>
<td>Singapore</td>
<td>6</td>
<td>South Africa</td>
<td>3</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5</td>
<td>Australia</td>
<td>2</td>
</tr>
<tr>
<td>Japan</td>
<td>2</td>
<td>Bermuda</td>
<td>2</td>
</tr>
<tr>
<td>South Korea</td>
<td>2</td>
<td>Singapore</td>
<td>1</td>
</tr>
<tr>
<td>Thailand</td>
<td>2</td>
<td>South Korea</td>
<td>1</td>
</tr>
<tr>
<td>Germany</td>
<td>1</td>
<td>Thailand</td>
<td>1</td>
</tr>
</tbody>
</table>

**Table II.** Top ten target destinations for Chinese and Indian firms
part of large business groups; for example, companies like TATA, Reliance, and Mahindra & Mahindra are at the forefront of cross-border acquisitions. In case of China, government-owned companies – e.g. Sinopec, Industrial, and the Commercial Bank of China – are leading cross-border acquirers.

**Target organizational brand identity.** For the purpose of this research, the target’s organizational brand identity is valuable to the acquirer if the target belongs to the high technology product market (HIGHTECH) and, in the case of large targets, if their stakeholders are more powerful in local markets (LOG_ASSET).

**National institutional and cultural factors**

This study looks at various national institutional factors that may impact target brand identity change – official language distance (LANG_OFF_DIST), political risk difference (DIFF_POLRISK), economic distance (DIFF_EFI), target national development (TAR_NAT_DEV), and legal distance (LEGAL_DIST). The official language distance is a dummy variable that indicates whether the EMF’s and target’s countries share the same official language (in which case it is set to 1; to 0 if they do not). The underlying argument presented for the impact of official language similarity is that a shared language implies ease of doing business, which may instil confidence in an EMF with regard to doing business in the target country. A high political risk distance between home and host countries might impel an EMF to grant its target a higher degree of autonomy, also aimed at shielding the target from any negative information from the home country, thus allowing it to operate independently. Political risk difference (DIFF_POLRISK) is therefore a good measure to examine the EMFs’ adoption of standardization/adaptation strategies for their targets.

Economic distance is proxied by the economic freedom index developed by the Heritage Foundation (Kane et al., 2007; Meyer et al., 2009), which provides detailed information on institutions, concentrating on the freedom the people and companies of a country have in establishing and managing their business operations. This index (DIFF_EFI) has been used widely in the extant literature (Bengoa and Sanchez-Robles, 2003; Easton and Walker, 1997; Meyer et al., 2009; Stroup, 2007). Also, this index is available as time series and generates time-sensitive variations among our cross-section data. Target national development, TAR_NAT_DEV, is a dummy variable that indicates whether the target belongs to a developed economy (as classified by the World Bank); it is assigned a value of 1 if it does and 0 otherwise (Gubbi et al., 2010; Sun et al., 2012). The data from the IMD WYC executive survey are used to create the legal distance index (LEGAL_DIST), which is available in time series format.

In this study, several of the cultural factors that can potentially impact target brand identity change were examined – namely, cultural distance (CULTURE_DIST), historical links (HISTORICAL_LINKS), and ethnic ties (ETHNIC_TIES). As in prior-related works (Kogut and Singh, 1988; Morosini et al., 1998), cultural distance is a composite measure calculated as:

\[
CULTURE\_DIST_f = \sqrt{\sum_{i=1}^{6} (I_{ij} - I_{ih})^2}
\]

where the cultural dimensions are power distance (PDI), individuality-collectivism (IDV), masculinity-femininity (MAS), uncertainty avoidance (UAI), long-term orientation vs short-term orientation (LTO) and indulgence vs restraint (IND), and \( I \) is the index for each. \( f \) denotes the index pertaining to the host country and \( h \) denotes that of home country. Historical links (HISTORICAL_LINKS) are those that exist between the home and host countries, whereas ethnic ties (ETHNIC_TIES) are a measure of the similarities in
population ethnicity between the home and host countries. For example, Malaysia has a sizeable ethnic Chinese population and, similarly, South Africa is home to a substantial Indian one.

**Control variables**

We also controlled for various deal-level characteristics which may impact the decision to change target name: if both target and acquirer belong to the same industry (SAME_INDUSTRY); if the deal was paid in cash (CASH); the percentage of the target acquired (PERCENTACQ); if the deal was likely to have been carried out due to market-seeking motives (MARKET_SEEKING); or to leverage currency advantage (FOREX). We also include industry and year dummies in our analysis to control for their effects. Table III presents the information on our variables and Table IV shows the summary statistics and Pearson correlation between the non-binary variables and the $\phi$ correlation between the binary ones. We do not observe a high degree of correlation between our explanatory variables and we believe not to have experienced multicollinearity issues in our empirical analysis.

**Results**

The results of the analyses of target and acquirer organizational brand identities with regard to standardization are presented in Table V. These indicate that membership of business groups, BUSINESS_GROUP, and government ownership, GOV_OWN, do not have effect on acquirer standardization decisions. We find that acquirer private ownership,
<table>
<thead>
<tr>
<th>Variable name</th>
<th>Mean/ frequency</th>
<th>SD</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
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<th>10</th>
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<th>13</th>
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<th>15</th>
<th>16</th>
<th>17</th>
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<tbody>
<tr>
<td>1. STANDARD</td>
<td>74</td>
<td>1.00</td>
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<tr>
<td>2. BUSINESS_GROUP</td>
<td>41</td>
<td>0.026</td>
<td>1.00</td>
<td></td>
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<tr>
<td>3. GOV_OWN</td>
<td>91</td>
<td>0.000</td>
<td>0.101</td>
<td>0.124</td>
<td>1.00</td>
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<td>4. PRIVATE_ACQUIRER</td>
<td>109</td>
<td>0.001</td>
<td>0.031</td>
<td>0.034</td>
<td>1.00</td>
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<tr>
<td>5. LOG_ASSET</td>
<td>30</td>
<td>-0.008</td>
<td>-0.084</td>
<td>-0.194</td>
<td>-0.145</td>
<td>-0.004</td>
<td>1.00</td>
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<tr>
<td>6. CULTURE_DIST</td>
<td>1.40</td>
<td>0.025</td>
<td>-0.129</td>
<td>-0.39*</td>
<td>-0.130</td>
<td>0.000</td>
<td>-0.004</td>
<td>1.00</td>
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<tr>
<td>7. HISTORICAL_LINKS</td>
<td>71</td>
<td>0.005</td>
<td>0.137</td>
<td>0.099</td>
<td>0.20*</td>
<td>0.23*</td>
<td>0.073</td>
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<tr>
<td>8. ETHNIC_TIES</td>
<td>88</td>
<td>0.029</td>
<td>0.125</td>
<td>-0.003</td>
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<td>0.29*</td>
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<td>9. LANG_OFF_DIST</td>
<td>128</td>
<td>0.007</td>
<td>0.000</td>
<td>0.38*</td>
<td>0.172</td>
<td>0.32*</td>
<td>0.45*</td>
<td>0.110</td>
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<td>10. DIFF_POLRISK</td>
<td>1.22</td>
<td>0.043</td>
<td>-0.031</td>
<td>0.32*</td>
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<td>11. DIFF_EFI</td>
<td>1.52</td>
<td>0.16</td>
<td>0.012</td>
<td>0.028</td>
<td>0.25*</td>
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<td>0.035</td>
<td>0.000</td>
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<td>12. TAR_NAT_DEV</td>
<td>91</td>
<td>0.046</td>
<td>0.144</td>
<td>-0.22*</td>
<td>-0.026</td>
<td>-0.34*</td>
<td>0.007</td>
<td>0.174</td>
<td>0.149</td>
<td>0.32</td>
<td>0.25*</td>
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<td>13. LEGAL_DIST</td>
<td>1.31</td>
<td>0.044</td>
<td>0.012</td>
<td>0.219</td>
<td>0.196</td>
<td>0.44*</td>
<td>0.059</td>
<td>0.015</td>
<td>0.198</td>
<td>0.37*</td>
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<td>0.36*</td>
<td>0.33*</td>
<td>0.73*</td>
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<td>14. SAME_INDUSTRY</td>
<td>83</td>
<td>0.030</td>
<td>-0.007</td>
<td>0.070</td>
<td>-0.37*</td>
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<td>0.161</td>
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<td>-0.146</td>
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<td>-0.29*</td>
<td>0.056</td>
<td>0.123</td>
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<td>15. CASH</td>
<td>90</td>
<td>0.015</td>
<td>0.137</td>
<td>0.101</td>
<td>-0.059</td>
<td>0.030</td>
<td>0.091</td>
<td>0.008</td>
<td>-0.007</td>
<td>0.068</td>
<td>0.072</td>
<td>0.027</td>
<td>0.111</td>
<td>0.041</td>
<td>0.27*</td>
<td>0.036</td>
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<td>16. PERCENTACQ</td>
<td>63.70</td>
<td>0.282</td>
<td>0.045</td>
<td>-0.196</td>
<td>-0.014</td>
<td>-0.154</td>
<td>0.028</td>
<td>0.155</td>
<td>0.044</td>
<td>0.47*</td>
<td>-0.33*</td>
<td>0.34*</td>
<td>0.173</td>
<td>0.061</td>
<td>0.047</td>
<td>0.47*</td>
<td>0.085</td>
<td>0.195</td>
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<td>17. MARKET_SEEKING</td>
<td>1.37</td>
<td>0.53</td>
<td>-0.002</td>
<td>-0.100</td>
<td>0.023</td>
<td>0.084</td>
<td>0.122</td>
<td>-0.26*</td>
<td>0.34*</td>
<td>0.056</td>
<td>-0.029</td>
<td>-0.126</td>
<td>0.204</td>
<td>-0.45*</td>
<td>0.000</td>
<td>0.077</td>
<td>0.136</td>
<td>-0.028</td>
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<td>18. FOREIGN</td>
<td>31.53</td>
<td>0.000</td>
<td>0.000</td>
<td>0.330</td>
<td>0.130</td>
<td>0.023</td>
<td>0.168</td>
<td>0.071</td>
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<td>0.091</td>
<td>-0.113</td>
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<td>0.030</td>
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Note: Correlation significant at *p < 0.1
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<td>BUSINESS_GROUP</td>
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<td>GOV_OWN</td>
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<tr>
<td>PRIVATE_ACQUIRER</td>
<td></td>
<td>0.495 (0.279)*</td>
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<td>Target characteristics</td>
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<td>LOG.Asset</td>
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<td>-0.219 (0.127)*</td>
<td>-0.252 (0.134)*</td>
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<td>HIGHTECH</td>
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<td>-0.205 (0.342)</td>
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<td>SAME_INDUSTRY</td>
<td>0.0278 (0.249)</td>
<td>0.0386 (0.250)</td>
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<td>0.0027 (0.234)</td>
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<td>PERCENTACQ</td>
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<td>0.00173 (0.00351)</td>
<td>0.00123 (0.00354)</td>
<td>6.41e-05 (0.00373)</td>
<td>-0.000380 (0.00097)</td>
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<td>MARKET_SEEKING</td>
<td>-0.472 (0.274)*</td>
<td>-0.477 (0.275)*</td>
<td>-0.520 (0.280)*</td>
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<td>FOREX</td>
<td>-0.00145 (0.00462)</td>
<td>-0.00115 (0.00481)</td>
<td>-0.000154 (0.00458)</td>
<td>-0.00133 (0.00450)</td>
<td>-0.000197 (0.00425)</td>
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<td>Included</td>
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<td>Included</td>
<td>Included</td>
<td>Included</td>
<td>Included</td>
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<tr>
<td>DUM_INDA</td>
<td>0.338 (0.250)</td>
<td>0.267 (0.319)</td>
<td>0.520 (0.319)</td>
<td>0.367 (0.236)</td>
<td>0.676 (0.385)*</td>
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<td>Constant</td>
<td>5.160 (1.019)***</td>
<td>5.400 (1.111)***</td>
<td>4.579 (1.073)***</td>
<td>5.959 (1.148)***</td>
<td>5.011 (1.290)***</td>
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<td>168</td>
<td>168</td>
<td>168</td>
<td>148</td>
<td>148</td>
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<td>$R^2$</td>
<td>0.0814</td>
<td>0.0829</td>
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<td>0.0845</td>
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<td>Prob. &gt; $\chi^2$</td>
<td>0.0000</td>
<td>0.0000</td>
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</tbody>
</table>

Notes: Robust standard errors in parentheses. *$p<0.1$; **$p<0.05$; ***$p<0.01$
PRIVATE_ACQUIRER, has a positive effect on standardization (coeff.: −0.524, significance: 10 per cent level). The size of the target, proxied by its assets, LOG_ASSET has a negative and significant effect on the standardization variable (coeff.: −0.252, significance: 10 per cent).

The analysis of the impact of institutional factors is presented in Table VI. We acknowledge the low reliability of the regression results presented in columns 1 to 8 of this table (prob. > \( \chi^2 \) are all greater than 0.0000). The final model presented in this table, which is our full model, not only has a satisfactory prob. > \( \chi^2 \) value (0.0000) but also a good R² one (0.3609). We observe that DIFF_EFI, which indicates differences in home and host country economic freedom, has a negative and significant effect on the standardization variable (coeff.: −4.154; significance: 10 per cent level). This supports our H3a.

The TAR_NAT_DEV (coeff.: 4.922; significance: 1 per cent level) and LEGAL_DIST (coeff.: 2.644; significance: 5 per cent level) variables both have positive and significant effects on the standardization variable. This result contradicts our H3a. So overall, we observe partial support for our H3a.

From Table VI, column 9, we observe that our cultural distance variable, CULTURE_DIST, has a negative and significant effect on the standardization variable (coeff.: −0.189; significance: 1 per cent level). Also, the variable that measures ethnic ties between the home and host countries, ETHNIC_TIES, has a positive and significant impact on the standardization measure (coeff.: 2.186; significance: 10 per cent level). Thus, we find support for our H3b. Table VII summarizes the results of our empirical analysis and we observe that most of our hypotheses are supported by this study’s results.

**Robustness checks**

We used variance inflation factor (VIF) and tolerance (Tolerance) values to examine the level of multicollinearity of our variables. We found that both these values were within the acceptable levels for this type of analysis. We found that all VIF values were below 10 and Tolerance values above 0.10.

To test the robustness of our results, we ran our analyses with alternate measures for the standardization of the EMFs marketing strategies. Instead of using target name change as the dependent variable, we evaluate changes in symbol, typography, and colour. The analyses of these three dependent variables did not produce results significantly different from those presented in this paper. We also used alternate measures of country-level institutional variables. We used institutional data from Berry et al. (2010) in our analyses. These yielded results similar to those presented in this paper.

**Discussion and research implications**

The aim of this paper was to examine the factors that lead to the standardization or adaptation of global marketing programmes of EMF M&As. The contemporary research notes that, due to the integration of world economies, there is no need for companies to adapt their marketing strategies in host markets; rather, companies should standardize. Yet, studies point out that cultural differences matter and companies should find ways to adapt at least certain elements of their marketing programmes. It is in this context that this paper examines the decision of EMFs to standardize/adapt their global marketing strategies after cross-border acquisitions. There has been a limited research investigating marketing integration-related issues that follow M&As (Degbey and Pelto, 2015; Öberg, 2014; Sinkovics et al., 2014). Yet, marketing integration is as important as other variables, such as cultural integration and boundary negotiation, between the merging companies (Drori et al., 2011, 2013; Sinkovics et al., 2014).

Compared to institutional and cultural dimensions, target and acquirer organizational identities are observed to have a weaker effect on EMFs’ decisions regarding standardization of marketing strategies.
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<td>LANG_OFF_DIST</td>
<td>-0.132 (0.488)</td>
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<td>0.935 (1.031)</td>
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<td>0.0212 (0.606)</td>
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<td>0.519 (0.914)</td>
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<td>DIFF_EFI</td>
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<td>1.036 (1.029)</td>
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<td>-4.154 (2.500)*</td>
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<td>-0.101 (0.394)</td>
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<td>4.922 (1.487)**</td>
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<tr>
<td>LEGAL_DIST</td>
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<td></td>
<td>1.917 (0.457)**</td>
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<td>2.644 (1.157)**</td>
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<tr>
<td>CULTURE_DIST</td>
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<td></td>
<td>-0.0310 (0.0122)**</td>
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<td>-0.189 (0.0500)**</td>
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<td>-0.529 (0.332)</td>
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<tr>
<td>SAME_INDUSTRY</td>
<td>0.375 (0.407)</td>
<td>0.4812 (0.477)*</td>
<td>0.436 (0.412)</td>
<td>0.369 (0.399)</td>
<td>0.565 (0.422)</td>
<td>0.477 (0.405)</td>
<td>0.322 (0.408)</td>
<td>0.578 (0.403)</td>
<td>1.236 (0.587)**</td>
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<td>-0.0630 (0.274)</td>
<td>-0.228 (0.295)</td>
<td>-0.169 (0.279)</td>
<td>-0.196 (0.283)</td>
<td>0.0697 (0.274)</td>
<td>-0.0314 (0.256)</td>
<td>0.362 (0.459)</td>
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<td>-0.00081 (0.0489)</td>
<td>0.00535 (0.00461)</td>
<td>0.00643 (0.00488)</td>
<td>0.00670 (0.00466)</td>
<td>0.00786 (0.00471)*</td>
<td>0.00025 (0.00455)</td>
<td>0.00041 (0.00470)</td>
<td>0.000841 (0.00768)</td>
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<td>-0.121 (0.339)</td>
<td>-0.127 (0.356)</td>
<td>-0.157 (0.359)</td>
<td>-0.348 (0.342)</td>
<td>0.110 (0.349)</td>
<td>-0.144 (0.385)</td>
<td>-1.308 (0.673)</td>
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<td>0.0007 (0.0050)</td>
<td>-0.0008 (0.0063)</td>
<td>0.00038 (0.0054)</td>
<td>0.00001 (0.0048)</td>
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<td>0.00026 (0.0042)</td>
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<td>0.00010 (0.0052)</td>
<td>0.0116 (0.0629)*</td>
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<td>DUM_INDIAX</td>
<td>0.0741 (0.701)</td>
<td>0.289 (0.323)</td>
<td>0.268 (0.305)</td>
<td>0.156 (0.373)</td>
<td>0.306 (0.394)</td>
<td>0.627 (0.437)</td>
<td>0.141 (0.375)</td>
<td>0.119 (0.395)</td>
<td>4.574 (1.148)**</td>
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<td>Constant</td>
<td>-0.834 (1.849)</td>
<td>-0.788 (1.592)</td>
<td>-2.555 (1.842)</td>
<td>-0.872 (1.149)</td>
<td>-2.634 (1.302)**</td>
<td>-0.820 (1.102)</td>
<td>-0.917 (1.067)</td>
<td>-0.971 (1.067)</td>
<td>-2.896 (3.396)</td>
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<td>0.1054</td>
<td>0.0885</td>
<td>0.1210</td>
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<td>0.9637</td>
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<td>0.7697</td>
<td>0.9567</td>
<td>0.9065</td>
<td>0.9666</td>
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Notes: Robust standard errors in parentheses. *p < 0.1; **p < 0.05; ***p < 0.01
Organizational brand identities of privately-owned EMFs will be positively related to the standardization of marketing strategies in the post-acquisition period (e.g. Lambkin and Muzellec, 2010). One potential underlying reason could be that, compared to publicly-listed EMFs, privately-owned acquirers are less likely to be closely scrutinized by external stakeholders. Hence, privately-owned EMFs can freely integrate strategic resources, including brand and marketing, into their own assets. Yet, target size will drive EMFs towards adapting their marketing strategies to meet local demands; hence, EMFs will grant targets the autonomy to pursue their own local marketing strategies.

Contrary to our expectations, we observe that institutional distance positively impacts the standardization of EMF global marketing strategies. It can be argued that, in their pursuit of the transfer of capabilities from more highly developed host markets to their home ones, EMF stakeholders may rely on a higher degree of integration of the acquired subsidiary with the parent EMF (Björkman et al., 2007; Meyer et al., 2009). Also, in the case of economies less developed than that of their home country – e.g. Chinese acquisitions in Africa and East Asia – the benefits linked to standardization of marketing strategies may outweigh retaining the local identities of target companies. Nevertheless, we observe that the economic freedom distance between the home and host countries negatively impacts standardization of marketing strategies. The possible explanation for this positive effect rests on the EMFs’ possible desire to leverage the higher economic freedom found in some of their targets’ markets, thus allowing their subsidiaries to maintain their own independent operations.

EMFs have to take great care in responding to cultural pressures without the restrictive constraints of institutions (Goodrick and Salancik, 1996). Kostova and Zaheer (1999) insisted that cultural distance creates greater issues than institutional distance for foreign companies. In the case of EMFs, hence, cultural distance will negatively impact the standardization of marketing strategies and targets may be granted considerable autonomy (Wang et al., 2013). Similarly, when there are profound historical and ethnic ties between countries, EMFs can leverage relationship-based synergies to strengthen their cross-border presence and acceptability. Hence, in the case of countries with a sizeable presence of ethnic Indian and Chinese populations, we observe that EMFs are likely to engage in the standardization of their marketing strategies in the post-acquisition period.

Based on these findings, we believe that this paper enhances the academic understanding of the factors that lead to the standardization or adaptation of global marketing strategies (Degbey and Pelto, 2015; Lambkin and Muzellec, 2010; Öberg, 2014) during PMI, thus contributing to cross-border M&A success in three important ways.

First, it provides an initial understanding of the factors that lead to the standardization or adaptation of global marketing strategies during the PMI period. This adds to the existing studies investigating the factors that contribute to the successful integration of two merging companies (Drori et al., 2011, 2013). The paper establishes a link between acquirer and target company identities and the standardization/adaptation adopted by EMFs to align their global marketing strategy. Most existing research has focussed on EMF global marketing strategies in the context of greenfield and exporting (Zou et al., 1997), while ignoring the global marketing strategies involved in EMF cross-border acquisitions.

<table>
<thead>
<tr>
<th>Explanatory variables</th>
<th>Expected effect</th>
<th>Observed effect on the standardization strategy</th>
</tr>
</thead>
<tbody>
<tr>
<td>Acquirer organizational identity</td>
<td>Positive</td>
<td>Positive</td>
</tr>
<tr>
<td>Target organizational identity</td>
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<td>Negative</td>
</tr>
<tr>
<td>Institutional distance</td>
<td>Negative</td>
<td>Positive</td>
</tr>
<tr>
<td>Cultural distance</td>
<td>Negative</td>
<td>Negative</td>
</tr>
<tr>
<td>Ethnic ties with host country</td>
<td>Positive</td>
<td>Positive</td>
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</tbody>
</table>

Table VII. Summary of results

Organizational brand identities of privately-owned EMFs will be positively related to the standardization of marketing strategies in the post-acquisition period (e.g. Lambkin and Muzellec, 2010). One potential underlying reason could be that, compared to publicly-listed EMFs, privately-owned acquirers are less likely to be closely scrutinized by external stakeholders. Hence, privately-owned EMFs can freely integrate strategic resources, including brand and marketing, into their own assets. Yet, target size will drive EMFs towards adapting their marketing strategies to meet local demands; hence, EMFs will grant targets the autonomy to pursue their own local marketing strategies.

Contrary to our expectations, we observe that institutional distance positively impacts the standardization of EMF global marketing strategies. It can be argued that, in their pursuit of the transfer of capabilities from more highly developed host markets to their home ones, EMF stakeholders may rely on a higher degree of integration of the acquired subsidiary with the parent EMF (Björkman et al., 2007; Meyer et al., 2009). Also, in the case of economies less developed than that of their home country – e.g. Chinese acquisitions in Africa and East Asia – the benefits linked to standardization of marketing strategies may outweigh retaining the local identities of target companies. Nevertheless, we observe that the economic freedom distance between the home and host countries negatively impacts standardization of marketing strategies. The possible explanation for this positive effect rests on the EMFs’ possible desire to leverage the higher economic freedom found in some of their targets’ markets, thus allowing their subsidiaries to maintain their own independent operations.

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Table VII. Summary of results
Second, the study identifies the relationship between the institutional factors that impact target brand standardization/adaptation strategies. By doing so, it ties in to other cross-border studies which link company-level strategy to institutional factors (Albaum and Tse, 2001; Auh and Menguc, 2009; Zou et al., 1997), and extends these studies to reflect the impact of institutional factors on acquirer global marketing strategies in the wake of M&As.

Third, this study highlights that institutional factors have a higher impact than organizational identities on target branding decisions made by both acquirer and target (Drori et al., 2013; Lambkin and Muzellec, 2010). This indicates that foreignness and country of origin liability arguments have much higher resonance in the decision-making process in terms of the standardization/adaptation marketing strategies (including branding) adopted by EMFs following M&As.

Besides this, our study also enriches previous M&A-related performance research by providing an advanced understanding of the role played by standardization or adaptation of global marketing strategies during the PMI period. More specifically, previous research focussed on the performance implications of post-merger marketing integration and particularly addressed the issue of integration speed as a success factor of M&As (e.g. Homburg and Bucerius, 2005). By contrast, our study analyses how different factors lead to the standardization or adaptation of global marketing strategies during the post-M&A phase of EMFs.

Limitations and future research directions

Although we have considered the two largest emerging economies, the lessons from this study are still limited to the institutional and cultural factors that govern these countries, which are also uniquely placed for this research as they have deep ethnic and historical links with several other countries worldwide. However, this is not true for several other emerging economies, so EMFs from these should potentially reflect on these issues whilst internationalizing their marketing strategies (Seth, 1986). This point is equally valid for researchers examining these EMFs’ marketing strategies, as these companies might derive synergies in other areas.

Also, Indian and Chinese EMFs are themselves different from those from other emerging economies in terms of sheer size, institutional support for internationalization, and policies mandating target integration with parent companies; hence, differences, however subtle, need to be taken into account when comparing the results of this research with other EMFs’ post-cross-border acquisition marketing strategies.

Due to the limited availability of data, the proxies for both acquirer and target organizational brand identities were restricted to a few key characteristics; future works can potentially examine the issues of post-acquisition marketing strategies on a wider set of characteristics making up organizational brand identities. Lastly, studies on EMFs should also pay closer attention to corporate social responsibility issues (Khan et al., 2015), and their links with standardization or adaptations of marketing strategies in host markets, as companies may adapt their marketing strategies in order to portray themselves as being socially responsible.

References


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Collaborative entry modes. Part 1

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