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GREENFIELD VERSUS COOPERATIVE ENTRY IN EMERGING ECONOMIES: A RESOURCE-BASED AND INSTITUTIONAL PERSPECTIVE

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Abstract

Foreign investor's choice between greenfield and cooperative entry has to balance the transfer and exploitation of resources with their augmentation by local learning and complementary acquisitions. In emerging economies, these processes are subject to less sophisticated institutional frameworks and weaker endowments of created assets. We outline how the analysis of business strategy can be adapted to emerging economy contexts. Using a unique survey data, we test propositions in four emerging markets, Egypt, India, South Africa and Vietnam.

Non-Technical Abstract

Greenfield versus Cooperative Entry in Emerging Economies:
A Resource-based and Institutional Perspective

Emerging economies play an increasingly significant role in the global strategies of multinational enterprises (MNEs). However, in such economies, MNEs face a different business environment in terms of both the institutional framework and the resource endowment. The institutions supporting the market mechanism are less sophisticated or effective, and the economies are less well endowed with resources, especially in terms of created assets such as skilled labor. In this paper, we analyse theoretically and empirically how MNEs choose their mode of entry between Greenfield operations and cooperative forms of entry such as acquisition or joint ventures. We extend the existing models of entry mode choice to take account of the particular characteristics of emerging markets as hosts, and analyze how these characteristics affect the ability of a firm to enhance its resources through combination with local resources. Since institutions are often weak and markets thin and poorly developed in emerging economies, crucial resources tend to be held by incumbent domestic firms. The more local firms control these resources, the less likely is greenfield entry control over local resources.

We test our propositions using an important new firm-level dataset. Our dataset contains information about FDI into Egypt, India, South Africa and Vietnam. These countries represent a cross-section of emerging economies, and have substantially liberalized their economies during the 1990s. This paper makes the following contributions. First, we show how resource-based and institutional perspectives can be combined to analyze business strategies in emerging economy contexts. Secondly, we present results from a unique new survey in four emerging economies that have not yet received due attention in the management literature. Thirdly, the results of the empirical analysis confirm many of our hypotheses.

We find MNEs adjust their corporate strategies to emerging market contexts to accommodate the institutional environment and the resource endowment, and to acquire or develop resources that provide competitive advantages in that environment. Investors' strategies for resource augmentation and exploitation vary according to context, and this influences their preferred mode of entering new markets. Local resource endowment is found to be important in terms of human capital, which is typically embedded in existing organizations. This indicates that, in the absence of resource-rich potential partners, cooperative strategies are not attractive. The relevance of institutions received support in form of time trends being consistent with our expectations. Thus, as the institutional framework creates a more level playing field between different types of competitors, greenfield entry becomes more realistic. The need for local resources is strongly confirmed as both tangible and intangible assets induce investors to seek local partners, because these resources are often organizationally embedded. Investors' own resources are relevant if they are transferable to the new operation. We thus find that experience influences mode choice, but in different ways in manufacturing and service industries. The attraction of local firms is more likely based on assets whose value arises from the specific domestic context. However, the lack of potential local partners is a major constraint on co-operative strategies. Partly as a consequence, MNEs in manufacturing appear first to establish a foothold, and then investigate how and with whom to build a cooperative venture how foreign investors find out about them, select between them, and build relationships.

INTRODUCTION

Emerging economies play an increasingly significant role in the global strategies of multinational enterprises (MNEs), and this has moved them into the focus of recent management research (Hoskisson, Eden, Lau & Wright, 2000; Wright, Filatotchev, Hoskisson & Peng, 2005). However, MNEs face a different business environment in emerging economies with respect to both the institutional framework and the resource endowment (Hitt, Dacin, Levitas, Arregle & Borza, 2000; Uhlenbruck, Meyer & Hitt, 2003). Specifically, the institutions supporting the market mechanism are less sophisticated or effective, and the economies are less well endowed with resources, especially in terms of created assets such as skilled labor (Narula & Dunning, 2000). An understanding of business strategies in these markets requires adaptation and development of the theories currently applied in the management field (Hoskisson *et al.,* 2000). Specifically, theories must account for how contextual influences moderate the strategic decisions taken by businesses. Recent empirical studies on emerging markets have, therefore, begun to incorporate the specificity of the emerging economy context in their theoretical reasoning (Delios & Henisz, 2000; Uhlenbruck & De Castro, 2000; Meyer, 2001). In this paper, we extend this line of research by applying the resource based view (RBV) (Wernerfeld, 1984; Barney, 1991) to emerging economies to explain how MNEs choose their mode of entry.

Applied to entry strategies, the RBV builds on the premise that strategies pertaining to choice of foreign entry mode are driven by the desire to exploit existing resources in wider markets and to augment them with new resources available elsewhere (Barkema & Vermeulen, 1998; Anand & Delios, 2002). The resource-based view has recently emerged as an alternative model to the previously dominant transaction cost based models of entry mode choice (Anderson & Gatignon, 1986; Hennart, 1988; Buckley & Casson, 1998). In this approach, entry modes are

chosen to make the best use of the combination of resources held by the MNE and those available in the local environment, and to optimize the opportunities for organizational learning (Barkema, Bell & Pennings, 1997; Barkema & Vermeulen, 1998). However, local resources are often embedded in existing organizations, especially in emerging markets, and can be accessed only by cooperating with incumbent firms rather than the market. The RBV has been found particularly suitable for analyzing firms in high volatility environments (Eisenhardt & Martin, 2003), and has therefore recently been applied to strategies in emerging economy contexts (Hitt *et al.,* 2000; Peng, 2001; Luo, 2002; Makhija, 2003, Uhlenbruck *et al.,* 2003).

In emerging markets, technological capabilities are typically more limited and the institutional infrastructure is less developed; so firms compete using a mix of capabilities and resources that may be very different from that in mature market economies. (Hitt, et al., 2000) Competitive advantages are thus often based on context-specific capabilities, including the ability to operate effectively in such institutional environments (Khanna & Palepu, 2000; Henisz, 2003) and the flexibility to adapt to the changing market opportunities in a highly volatile business environment (Peng & Luo, 2000; Uhlenbruck et al., 2003). Globally transferable industry-specific resources are valuable in their own right, but unlikely to be sufficient to overcome the specific 'liability of foreignness' (Zaheer, 1995) in emerging economies.

In applying RBV to entry strategies in emerging economies, we extend the existing models of entry mode choice to take account of the particular characteristics of emerging markets as hosts, and analyze how these characteristics affect the ability of a firm to enhance its resources through combination with local resources. We also discuss how predictions have to be modified to account for the moderating effects of contextual variables. Project and context specific variables add considerable explanatory power to firm specific features in explaining how

companies enter emerging markets (Luo, 2001; Delios & Henisz, 2000; Anand & Delios, 2002).

Since institutions are often weak and markets thin and poorly developed, crucial resources tend to be held by incumbent domestic firms. The more local firms control these resources, the less likely is greenfield entry. Thus the 'supply side' of local firms possessing scarce resources and market power is a significant constraint. Moreover, investors' experience may not affect manufacturing foreign direct investment (FDI) the way it does in mature economies – manufacturing firms tend to gather local experience and build relationships with potential future partners before committing to a joint venture (JV) or an acquisition. This runs counter to the notion that MNEs would use to JVs to build experience that eventually would allow them to go alone, but is consistent with strategies to circumvent incumbent's control over local resources.

We test our propositions using an important new firm-level dataset. Empirical studies have examined the choice of entry mode in transition economies in Eastern Europe (Brouthers & Brouthers, 2000, 2003; Meyer, 2001) and China (Tse, Pan & Au, 1997; Pan & Chi, 1999; Pan & Tse, 2000; Luo, 2001), but other emerging markets remain under-researched. Our dataset contains information about FDI into Egypt, India, South Africa and Vietnam. These countries represent a cross-section of emerging economies, and have substantially liberalized their economies during the 1990s. However they are sufficiently diverse to provide significant variations in institutional environments and the availability and quality of local resources. They therefore provide a suitable testing ground for our hypotheses.

This paper makes the following contributions. First, we show how resource-based and institutional perspectives can be combined to analyze business strategies in emerging economy contexts. Secondly, we present results from a unique new survey in four emerging economies that have not yet received due attention in the management literature. Thirdly, the results of the

empirical analysis confirm many of our hypotheses generated by the adaptation of the RBV.

In the next section, we discuss the application of international business and strategic management theories to emerging markets, focusing on how local conditions, especially resource endowments and institutions, impact on MNEs choice between greenfield and cooperative entry modes; acquisition and JV. In section 3, we develop propositions that reflect these contextual influences. Section 4 introduces the methodology and the dataset. The results are reported in the fifth section, which are then discussed the sixth, also drawing on case research that has been part of our broader research agenda (see ___ & ___, 2004), before developing conclusions.

STRATEGY IN EMERGING MARKETS: THEORETICAL PERSPECTIVES

The development and testing of theories in the international business and strategy fields have focused primarily on explaining the behavior of firms in mature market economies. However, because the contexts of emerging markets are different, such models do not always provide satisfactory explanations of behavior of MNEs in these countries (Hoskisson et al., 2000; Peng, 2003; Wright et al., 2005). The principal differences between mature market economies and emerging ones lie in the indigenous resource endowment and the institutional set-up:

- Emerging economies typically have a less sophisticated formal institutional framework. This includes less extensive legal framework as well as less effective law enforcement, information systems, market intermediaries and bureaucracy. In consequence, businesses rely to a larger extent on informal rather than formal mechanisms of control and contract enforcement (Khanna and Palepu, 2000; Peng, 2003; Makhija, 2003).
- Emerging economies typically have weaker endowment of resources, in particular with

created assets (Narula & Dunning, 2000). This includes in particular human capital, physical capital, and infrastructure. Many emerging economies are however well endowed with natural assets such as raw materials, agricultural products and low-skilled labor.

Since the peculiarities affecting entry strategies in emerging economies are affected by both resources and institutions, we follow the suggestion by Filatotchev et al. (2003) and Wright et al. (2005) to integrate institutional theory with the RBV. The latter provides a suitable theoretical foundation because it analyzes how firms acquire, develop, modify, transfer and divest resources with the aim of gaining competitive advantage (Barney, 1991; Peng, 2001). These resources may be embedded in individuals or teams; in a firm's internal and external network relationships; in its business processes; and in synergies realized among business units (Dierickx & Cool, 1989; Kogut & Zander, 1993; Teece, Pisano & Shuen, 1997). These resources are a foundation for organizational rents (Penrose, 1959; Amit & Schoemaker, 1993); yet firms would simultaneously aim to enhance their resource base by acquiring complementary resources or by stimulating organizational learning (Fiol & Lyles, 1985; Barkema & Vermeulen, 1998).

****** Figure 1 approximately here ******

Our conceptualization of the issue is outlined in Figure 1. The choice of foreign entry mode reflects firms' strategies of exploiting and enhancing their resources in the local context. Following the RBV model, the main determinants of the entry mode decision are the needs for local resources, which themselves depend on the strategic objectives of the entry, and the transferability of the firm's existing resources, as shown in the lower part of Figure 1. However, the particular characteristics of the business environment in emerging economies can also have

direct and indirect implications for this strategic decision, and these are depicted in the upper part of Figure 1. Since the institutional framework is weaker, the ownership of resources and the means by which an entrant can gain control over the resources vary. Markets may be inhibited by high cost of contracting, weak information systems (and thus extant information asymmetries), lack of specialized intermediaries (e.g. in financial markets), or bureaucracy and corruption (Mauro, 1995; World Bank, 2004). Finally, formal constraints may restrict the permissible set of business strategies. For example, many emerging economies still impose industry-specific ceilings on the extent of foreign equity ownership (Makino & Beamish, 1998). The fewer the institutions supporting the market mechanism, the more political, economic and social uncertainties are likely to affect firms' strategies (Khanna & Palepu, 2000; Peng, 2003).

The weaker resource endowment has direct implications for foreign investors aiming to collaborate with local firms or to recruit local human capital. Foreign investors may have to invest considerable resources in the restructuring of the local firm when entering via acquisition or in many JVs (Uhlenbruck & DeCastro, 2000; Meyer & Estrin, 2001). This investment can include conventional technological upgrading through new machinery and staff training, as well as deep changes in organizational structures and cultures (Newman, 2000; Meyer, 2002). When establishing a greenfield operation foreign investors may face a resource scarcity in recruiting local human capital. In consequence, the types of complementary resources that foreign investors may seek to acquire from potential local partners can vary with the nature of the local market (Hitt, et al., 2000).

The indirect consequences of the specific institutional environment of emerging markets are also important, but have been less analyzed than the direct effects. The unique features of the local context imply that different types of resources are required to gain competitive advantages (Newman, 2000) and the types of resources that firms would aim to acquire, develop and exploit

vary across business contexts. In mature markets, industry-specific capabilities are often the prime drivers of competitiveness, but firms operating in emerging markets may find context-specific resources equally important (Kock & Guillén, 2000; Peng, 2003). Foreign entrants have to develop or access such resources, and combine them with their own (Anand & Delios, 2002). Context specific resources come in different forms.

First, networks with other businesses, with agents in the distributional channels, and with government authorities are important assets in emerging economies (Peng & Heath, 1996). If legal institutions such as contract law and enforcement of property rights are weakly developed, businesses will rely more on network-based growth strategies, thereby developing the ability to enforce contracts, which are often informal, using norms as opposed to litigation.

Second, context-specific organizational capabilities provide advantages to local insiders. This includes strategic and organizational flexibility to operate in a highly volatile institutional and economic environment (Lane, Salk & Lyles, 2001; Uhlenbruck et al., 2003), contact capabilities that enable firms to build and maintain networks (Kock & Guillén, 2000), capabilities related to managing large low-skill labor forces, and political capabilities to manage interfaces with government authorities (Henisz, 2003).

Third, both tangible and intangible assets can be a source of competitive advantage in emerging economies. Whereas in industrialized economies tangible assets can be contrasted with intangible assets in being tradable and subject to few market failures, in emerging economies control over tangible assets such as natural resources and low skilled labor can also be an important source of competitive advantage (Estrin, Hughes & Todd, 1997).

The competitive advantage of an MNE operating in an emerging market, therefore, is determined by its ability to adapt its competences to the needs and capabilities of the local

product and factor markets, and to utilize available local resources in the best possible combination with this own core competences. For example, successful marketing of a product developed in mature economies may require development of product and marketing processes that suit local consumer behavior and nature of local distribution channels (London & Hart, 2004; Prahalad, 2004). The choice of entry mode is crucial for foreign entrants to develop a resource mix that enables them to compete in the local context.

HYPOTHESIS DEVELOPMENT

Entry modes differ in the origin of the resources employed in the local operation. A greenfield project creates a *de novo* subsidiary; the MNE itself combines the resources from a variety of sources – from itself, from the host and home country markets. For example, an investor would prefer greenfield entry if the overseas expansion were on the basis of a unique embedded resource that requires replication in the local affiliate, while complementary resources such as skilled workers and real estate were easily available locally (Hennart & Park, 1993; Danis & Parkhe, 2002). In contrast, entry by a cooperative mode would be more likely if local firms controlled crucial local resources. In acquisitions many resources of the local affiliate are embedded in the acquired local company (see Kogut & Singh, 1988), and they may capture internal routines and local 'organizing principles' (Kogut, 1991). Finally, a JV is created by MNEs joining its resources with those embedded within one or more local firms, with the partner firm(s) and the MNE both contributing resources to the *de novo* local company and jointly sharing control over its operation. The preferred entry mode, therefore, depends on the relative merits of acquiring the resources from the various sources.

RBV researchers analyze how different modes facilitate the exploitation of existing resources or enhance the resource base of the firm (Anand & Delios, 2002); an appropriate framework to link the issues raised in the previous section with entry mode decisions. Entry mode depends on the nature of the strategic objectives underlying the entry and of the resources that are available either locally or by transfer from the parent (Figure 1, lower part). Decisions can be understood by combining project-, location-, and investor-specific variables (Contractor & Kundu, 1998; Luo, 2001). In developing specific testable propositions, we link these dimensions with the pertinent moderating effects arising from the emerging economy context.

Resource Needs

As a consequence of the idiosyncratic institutional framework and resource endowment in emerging economies, firms usually require both tangible and intangible resources to achieve competitive advantages. Foreign investors need to gain access to such resources as business networks and context-specific capabilities. Since these resources are typically embedded in local firms, the desire to tap into local resources may induce MNEs to seek local partners, while MNEs that are less dependent on resources controlled by local firms would be more likely to enter by greenfield investment.

If the resources sought from local partners are intangible, transactions may have to be internalized because the markets for intangible resources are often subject to market failures (Buckley & Casson, 1976; Hennart, 1988). The time and cost of building intangible assets like brands and distribution networks will lead MNEs to enter markets through cooperation with local firms that have the necessary resources embedded.

One might expect cooperative entry modes to be less suitable if the sought resources are tangible, because these could in principle be purchased from local markets. This holds true in developed economies where market failures are not endemic. Even if existing firms own the required resources, they could be bid away by the entering MNE because markets function fairly efficiently. *Hence, we would expect that, in industrialized countries, greater need for local assets reduce the likelihood of greenfield entry, especially if the assets sought are intangible.*

Yet, emerging economies are different in ways that lead us to modify this argument. The markets for tangible assets such as real estate, natural resources, skilled and semi-skilled labor and financial capital are under-developed, illiquid and subject to market failures because of monopoly power and imperfect property rights. Thus, in emerging markets we cannot *a priori* predict any difference in the impact on entry mode of the need for local resources according to whether these are intangible or tangible.

H1a: The more foreign investors in emerging economies require local resources (tangible or intangible) to enhance their competitiveness, the less likely is entry in the form of greenfield.

The resources required for an FDI operation would also depend on investment motives. The literature distinguishes between *resource exploiting* (Morck & Yeung, 1991) and *resource seeking* FDI (Zahra *et al*., 2000; Chung, 2001; Luo, 2002). Resource exploiting MNEs seek to maximize the rents from the firm's resources and capabilities, partly by leveraging the resources available in overseas operations. Resource seeking MNEs, on the other hand, seek to add to their capabilities by combining them with resources available in other countries. In emerging

economies, resource exploitation is associated with market-seeking FDI, whereas resource seeking is associated with production for exports (Makino, Lau and Yeh, 2002).

For resource seeking investors, the prime objective is to access local resources. Such FDI is particularly common in technology-intensive sectors. Since technology-based assets are generally fungible, they may be acquired and then be shared throughout the MNEs global operations (Anand & Delios, 2002). However, technology-based assets and human capital are often organizationally embedded, and not transferable in disembodied form. A JV or acquisition would thus often be most suitable to access the sought resources. *Hence, we would expect that, at least in industrialized economies, resource-seeking FDI is less likely to be in form of greenfield.*

However, the emerging markets context suggests two countervailing forces to this proposition. On the one hand, market-seeking FDI requires location-specific resources and capabilities, such as business networks and access to local distribution channels. Yet, these are controlled by local firms, in contrast to what one might expect in industrialized countries. Resource exploiters may thus have to work with local partners to navigate their way through local rules and bureaucracy or in order to build business and distribution networks. Foreign investors entering by an acquisition or JV can tap into existing local networks, market knowledge and distribution networks (Hitt *et al*., 2000; Anand & Delios, 2002).

On the other hand, resource-seeking FDI is often oriented towards labor-intensive production processes, where the main local resource employed is a low or medium skilled labor force. This resource, however, is – in contrast to the high technology input sought by foreign investor in say the USA – not subject to particularly high market failures. Indeed, employees can be readily recruited at relatively favorable wages as long as the foreign investor has a respectable reputation and access to the local labor market.

Thus, in contrast to mature economies where resource seekers would be are less likely to choose greenfield entry, we hypothesize a more balanced outcome in emerging markets.

H1b: Unlike in developed economies, resource-seeking foreign investors are not more likely to choose greenfield entry in emerging markets.

Investors' own resources: experience

Since emerging economies are highly idiosyncratic, foreign investors may not be able to redeploy their general organizational and managerial capabilities, unless these are specifically adapted to emerging economies. MNEs with operating experience in a specific foreign business environment develop context-specific capabilities, and can therefore reduce the cost of subsequent businesses activities in these and similar markets (Barkema & Vermeulen, 1998; Delios & Henisz, 2000; Henisz, 2003). Through operating in a host economy, MNEs engage in learning by doing, and thus build experience relevant to the specific local environment. Country-specific experience and familiarity with the local environment reduces investors' dependence on local partners and their organizationally embedded intangible resources (Barkema & Vermeulen, 1998; Delios & Henisz, 2000, 2003). Thus it has been argued that MNEs may first enter foreign markets by way of JVs, and once they acquire knowledge about the local market conditions, would take full control in subsequent entries (Wilson, 1980). *Hence, in industrialized countries, we would expect inexperienced investors to enter by joint ventures.*

However, this argument needs some adaptation in emerging economies. Firstly, the variation in the business environment is much greater in emerging than in developed economies. Thus, greater effort has to go into developing context-specific capabilities even though, at the same time, the operating experience obtained in one emerging economy may be transferable to countries

with similar institutional structure and business culture (Henisz, 2003). MNEs may thus develop 'dynamic capabilities' (Eisenhardt & Martin, 2000; Teece, *et al.*, 1997) that allow them to develop, acquire and integrate resources and capabilities required to compete. .

Secondly, identifying a suitable business partner and building a mutually beneficial relationship is a time consuming process. This holds true especially in emerging economies where contracts are more costly to enforce through the formal institutional system, and informal relationships thus are more important. Thus, manufacturing MNEs may initially enter emerging economies by exporting, opening a sales office, or some form of contractual collaboration. Once they establish local manufacturing facilities or their own distribution network however, they face deeper interactions with the local environment that require cooperation with a local partner. We would therefore expect that, in contrast to developed economies, foreign investors in emerging economies would first build a small foothold operation, and later expand by building a larger facility as JV, or by acquiring a local firm. This may however not apply to service sectors where production and sales typically have to take place at the same location, which may make even small operations without a local partner difficult.

The contradictory arguments with respect to developed and emerging economies may explain the inconclusive findings in earlier empirical work on the link between experience and greenfield entry. Some studies find that country-specific experience facilitates acquisitions (Barkema & Vermeulen, 1998), while others fail to identify a statistically significant relationship (Kogut & Singh, 1988; Hennart & Park, 1993; Padmanabhan & Cho, 1996). We propose that in emerging economies the need for building relationships inhibits first time entrants to establish manufacturing JVs or acquisitions. We limit this proposition to manufacturing because of the differences between manufacturing and services in determining entry modes (Brouthers &

Brouthers, 2003).

H2: Foreign investors in emerging economies without operating experience in the relevant country are more likely to choose greenfield entry for manufacturing operations.

Resources of local firms

The existence of potential partners is often taken for granted in the business strategy literature, and *we would not expect a relationship between resources of local firms and entry mode in industrialized countries*. However, in emerging markets, because local resource endowments are weak, foreign investors may face obstacles in finding local partners with resources of suitable quality (Estrin, Hughes & Todd, 1997). This supply side constraint may be binding in emerging economies to such an extent that cooperative entry is inhibited, even in industries where firms traditionally grow through mergers and acquisition.

In recent years, local resources have also become an important motive for FDI into emerging economies (Narula & Dunning, 2000), as illustrated for instance by FDI in the Indian information technology sector (Commander, 2005). While such industries may still be rare, where they exist, acquisitions or JV become more likely. However, MNEs entering emerging economies also seek less sophisticated types of resources that are typically controlled by local firms. Moreover, MNEs may be interested not only in partners' current market position, but also in their potential for future development. Thus, MNEs may focus on the "absorptive capacity" of local firms i.e. their ability to adopt the MNEs technology, production processes and business practices. This absorptive capacity is a function of not only the human capital associated with the local firm but also of its organizational structure and business culture (Fiol & Lyles, 1985; Zahra & George, 2003). Strong

absorptive capacity would facilitate knowledge transfer to a local JV partner (Lane, Salk & Lyles, 2001) or affiliate (Simonin, 2004), while collaboration with weak local firms may cause significant and expensive integration problems (Hennart & Reddy, 1997). If local firms do not have appropriate absorptive capacity, a MNE would be more likely to enter by way of a greenfield project.

The resources of local firms are often embedded in their human capital. Headhunting of key personnel is less feasible in emerging markets, because managerial labor markets are not well developed, especially when most successful local businesses are family owned, and because of skill shortages, especially for managers and technical personnel (Khanna & Palepu, 2000; Kock & Guillén, 2000). Key personnel may thus be a major factor motivating cooperation with a local firm.

Resourcefulness of local firms may be reflected in their market share. In highly concentrated industries, incumbents may be strong partners, or strong competitors likely to adopt retaliatory strategies against new entrants (Yip, 1982; Chatterjee, 1990). In mature economies, the anticipation of such reactions by incumbents is normally assumed to lead to the choice of cooperative modes of entry in more concentrated industries, though the empirical evidence for this is mixed (Caves & Mehra, 1986; Hennart & Park, 1993; Hennart & Reddy, 1997).

In emerging markets, the sources of market power and barriers to entry are often related to the institutional environment rather then economies of scale. Closer links between political and economic networks make it easier for domestic incumbents to lobby for regulations and other barriers to greenfield entry. Acquisitions, which do not alter the market shares of incumbent firms, are less threatening (Buckley & Casson, 1998) and JVs may also be an option for both parties if the local firm feels that the international cooperation would give it a competitive edge (Fahy *et al.,* 2000). Thus, though the mechanisms whereby market power impacts on entry mode

may be different in developed and emerging economies, the resources of the incumbents may inhibit greenfield entry by foreign investors in both.

H3: The higher the quality of resources and capabilities controlled by local firms, the less likely foreign investors in emerging economies would choose greenfield entry.

Institutional barriers

Foreign investors into emerging markets may be confronted with institutional barriers that inhibit access to local resources. If the institutions supporting the market mechanism are underdeveloped, the efficiency of market transactions will be inhibited, in ways that lead firms to internalize markets (Khanna & Palepu, 2000) or use network-based growth strategies (Peng & Heath, 1996). Foreign investors tend to be disproportionately affected by inefficient markets because they are less familiar with the intricacies of non-market transactions in a given context. Thus, they may find it prohibitively costly to acquire local resources directly, and prefer cooperating with local firms.

These same resources would be readily available on markets in industrialized countries. As the regulatory environment in emerging economies improves, more sectors become opened up to foreign investment and foreign investors face fewer formalities, permits and licenses. Thus, the need for local partners declines with institutional development. Moreover, improved regulatory frameworks lower transaction costs and reduces the need for relationship-based transactions (Oxley, 1998; Meyer, 2001; Peng, 2003). Hence, we expect institutional development to be positively associated with greenfield entry.

H4: The more sophisticated the market-supporting institutions in the host economy, the more likely foreign investors in emerging economies would choose greenfield entry.

THE EMPIRICAL SETTING AND METHODOLOGY

We test our hypotheses using data collected for the purpose in four emerging markets that are major players in their respective region: Egypt, India, South Africa and Vietnam. Their common feature is that they have pursued economic reforms since the early 1990s, including liberalization of their regulations governing FDI. As a result, each experienced a surge of inward FDI during the 1990s, though FDI flows did not reach or were not sustained at the expected scale. FDI peaked at $2.96b in Egypt (1999), $3.4b in India (2001), $6.66 in South Africa (2001) and $2.6b in Vietnam (1997) (United Nations, 2003).

The four economies are also different from each other in ways that provide significant variation in the local business environments. For example, South Africa with a per capita GDP of over 8,000 PPP dollars is not a typical developing country, notwithstanding widespread poverty and a high degree of income inequality. It has, on average, a higher state of development and better infrastructure than Egypt, India and Vietnam. India, on the other hand, has GDP per capita of about 2200 PPP dollars and underdeveloped infrastructure, but a highly developed information technology sector and a large pool of skilled labor. Further, India's domestic market is much larger than those of Egypt, South Africa and Vietnam. The cross-country diversity implies that data pooled from these four economies provide significant variations in terms of the types of MNEs they attract, and the business and entry mode strategies these MNEs pursue.

Methods of Empirical Analysis

The data were collected using a survey instrument that enabled the collection of information about the characteristics of the MNEs, their local affiliates, and the perceptions of MNE managers concerning local conditions. In addition, we conducted twelve case studies, three in each of the four countries (____ & ____, 2004), which help us in interpreting the findings of the empirical analysis.

Questionnaire. The questionnaire was targeted at CEOs of local affiliates, and was developed in stages by the authors in cooperation with the field research team leaders including a pilot on about 35 firms during the summer of 2001. The questionnaire was revised based on the feedback provided in the pilot stage and the insights into the strategic decision-making process of the MNEs by way of the case studies.

Base population. The base population for the survey was defined as all FDI projects newly registered in each of the four countries between 1990 and 2000 that had a minimum employment of 10 persons, and minimum of 10% equity stake by the foreign investor. The time limit ensures that the information relevant to the decisions taken at the time of entry was still part of the organizational memory at the time of the survey. The stipulations concerning size and equity stake of the foreign investor ensured that firms in the base population were substantive and operational businesses. The base population was constructed from locally available databases. In India and Vietnam, comprehensive databases were obtained from the authorities that regulate FDI but in Egypt and South Africa, the base population had to be constructed from scratch using commercial databases supplemented with research by the country research teams.

Data collection. The questionnaire was administered in the four countries between November 2001 and April 2002.[1] MNE affiliates were selected using stratified random sampling. The stratification was used to ensure that the inter-sectoral distribution of firms in the sample closely resembled that of the population at the 2-digit level. Once a firm was selected, teams that were specially trained for the administration of the questionnaire interviewed a top-level manager, usually the CEO. A total of 613 responses were received with response rates varying between 10% in Egypt and 31% in South Africa. If less than 150 firms responded in any country, the sample size was made up by replacement using randomly selected firms in each 2-digit industry. However, there were some missing values in the dataset, especially in response to questions about the local environment so the full regression model uses 422 observations, the restricted ones somewhat more.[2]

Construction of Variables

Our analysis focuses on the choice between greenfield and cooperative modes of entry so the dependent is binary, taking the value of 1 for greenfield entries and zero otherwise. The classification is based on the self-response of the firms. The explanatory variables can be categorized into three: resource-related variables, characteristics of local firms who were potential partners of the entering MNEs, and characteristics of the MNEs. These combine respondents' assessment on Likert-type scales and objective measures like data on the parent firm to avert common method bias. The

[1] In Vietnam, respondents received the questionnaire in an English and the Vietnamese version, plus in the case of Chinese parent firms a Chinese version. The translations to respectively Vietnamese and Chinese were done with the established translation and independent back-translation procedure. While the Chinese version turned out to be an important instrument to establish contact and trust with the firms, almost all preferred to complete the Vietnamese or English version. In the other three countries, English is established as the major language of business and we abstained from translation

explanatory variables are constructed as follows:[3]

Need for local resources. We constructed two indices to measure the need of investors for *tangible* and *intangible assets*. The survey instrument required the MNE affiliates to respond to two related questions. The first required them to identify the three tangible or intangible resources that were important to the success of their business ventures.[4] A MNE could choose 0, 1, 2 or 3 tangible resources, and correspondingly 3, 2, 1 and 0 intangible resources. The second question required the MNEs to provide information about the extent to which – in percentage terms – these resources were contributed by the parent MNE, the local affiliate (if any), overseas markets, and the local market. We defined the share of key resources sourced from the host country as the sum of the shares sourced from the local partner and the host country market. Given this information, we defined the indices for tangible index and intangible index as follows: Let the percentage of a resource i sourced from the host country be x_i. Each resource is assigned a weight corresponding with its ranking by the respondent, which may be 1, 2, 3 or 0 (= not ranked). Let w_i be the weight associated with each x_i, so that w_1=3, w_2=2 and w_3=1, w_0=0. For both types of resources, the index was calculated using the formula $\sum_i w_i x_i / \sum_i w_i$. The index thus reflects the relative contribution of local resources to the overall package of resources that the firms considers essential for its competitiveness, giving more weight to the resources ranked as more important.

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[2] Analysis of the characteristics of enterprises by missing values in terms of country, sector, size and entry mode suggest no significant pattern. We report Heckman tests below.

[3] The questionnaire upon which the variables are defined is available from the authors on request.

[4] The choice of tangible resources included in the questionnaire were buildings and real estate, equity, loans, machinery and equipment, patents, sales outlets, and licences. The choice of intangible resources included brands, business network, distribution network, managerial capabilities, innovation capabilities, marketing capabilities, networks with authorities, technological know-how, and trade contacts. There was also an "other" option, but this obtained only a negligible number of entries.

Investment Motive. We define a dummy variable *resource seeking* that takes the value of 1 if the affiliate exported at least 50% of its output in the first year of operation, and zero otherwise.[5] This information is obtained from an item in the questionnaire in which respondents indicated their sales by region at different points in time.

Experience. The foreign investors' experience is measured with a dummy variable to take account of how experience may influence international strategies (Barkema & Vermeulen, 1998). *Experience in country* is a dummy variable indicating whether or not the investor had prior business operations in the country. As we expect differences in the impact of experience between manufacturing and services, we also interact the experience variable with a service industry dummy.

Local firms. In the absence of reliable industry-level statistics in emerging economies on, for example, concentration indices, or expenditures for R&D and advertising that have been used in earlier research (Hennart & Park, 1993; Anand & Delios, 2002), we rely on three different survey-based measures to proxy these constructs. Local firms' resources are proxied with three variables. Respondents were asked to report their perceptions about the *quality of local firms* at the time of entry, using a 5-point Likert scale. Respondents reported their perceptions about the quality and range of products and services of the competing local firms, their management capabilities, and their marketing capabilities. We created a three-item measure for the MNEs' assessment of the quality of the local firms at the time of entry, the index being an arithmetic average (Crombach's alpha: 0.79).

[5] Here, we assume that the export performance in the initial year reflects the primary objectives of the MNE with respect to the host country. The share of exports in total output does not change greatly from the initial year of operation to 2001. Our results are not sensitive to using the final rather than the initial year to define *resource-seeking.*

The quality of local firms' human resources is measured in a similar way. Respondents reported their perceptions about the availability and quality of different types of labor – executive management, professionals, operational management, and skilled non-managerial labor – in the local market, on a 5-point Likert scale. As above, an index was created for *quality of local firm' human capital* by using an arithmetic average of the four scores (Crombach's alpha: 0.81). Third, respondents were asked to report the number of competitors in the host country markets at the time of their entry into those markets, using an ordinal scale ranging from 1 (none) to 5 (over 10 competitors). *Concentration* is a dummy variable that takes the value 1 if a respondent reported less than 5 on this scale, indicating that the local market had less than 10 competitors at the time of entry.

Institutions. The quality of local institutions is measured in two different ways. First, we use the respondents' assessment of the conduciveness for business of different official procedures, namely (1) obtaining business licenses, (2) real estate purchase, (3) visa and work permits, (4) environmental regulation, on a scale from 1 (not conducive at all) to 5 (very conducive). The four item index of institutions was again created as the arithmetic mean (Crombach's alpha: 0.63).

Second, based on our country background studies (____&____, especially Table 2.9), we know that the institutional environment has been generally become more conducive to FDI in India and Vietnam, whereas changes in Egypt were less evident and the institutional frame in South Africa was already fairly open in the early 1990's. The different paces of reform are captured by separate time trend variable for each of the four countries. Based on hypothesis 4, we would expect the time trend to show a positive effect in Vietnam and India, but no effect (or a smaller effect) in the case of Egypt and South Africa.

Controls for Characteristics of MNE parent. To test our propositions, we need to control for other firm specific effects. MNEs that possess resources that are easily transferable across borders but are difficult to transfer across organizational boundaries are expected to prefer greenfield entry. Empirical research provides strong support for this relationship, finding for example, that R&D intensive firms prefer greenfield entry (Kogut & Singh, 1988; Hennart & Park, 1993; Padmanabhan & Cho, 1996; Brouthers & Brouthers, 2000). Similarly, firms focusing on one product line, who are likely to possess unique knowledge for the production processes and business practices of those product lines, are found to prefer greenfield entry while diversified firms prefer entry by acquisition or JV (Caves & Mehra, 1986; Hennart & Larimo, 1998; Brouthers & Brouthers, 2000). Finally, MNEs establishing large investments are less likely to possess all the required resources, and may thus opt for a cooperative mode to access complementary resources and to share the risks of the new business venture with a partner. Hence, relatively smaller FDI is frequently associated with greenfield projects (Caves & Mehra, 1986; Kogut & Singh, 1988; Hennart & Park, 1993; Brouthers & Brouthers, 2000).

In line with prior research, foreign investor's unique resources are measured by three variables, simplified to the possibilities of a questionnaire survey instrument. *R&D intensity* is the R&D expenditures as a percentage of sales, as reported in the questionnaire on a scale from 1 (0-0.5%) to 7 (over 15%). *Relative size* is based on a 6-point scale reported in the questionnaire, where 1 stands for 0 to 0.1% and 6 stands for over 20% of the MNEs global turnover. A dummy variable has been created taking the value of 1 if the affiliate accounts for more than 5% of global turnover. *Conglomerate* is a dummy variable that takes the value of 1 if the respondent found that out of three options "Conglomerate diversified into unrelated business sectors" best described the parent firm,

with focused and related diversification as alternatives choices.

Further control Variables. Many studies have observed that the national origin of investors impacts the choice of entry mode (e.g. Hennart & Larimo, 1998; Brouthers & Brouthers, 2001). We therefore include two variables that control for the country of origin: the *geographic distance* between the home country of the parent MNE and the host country, in 1000 kilometers, and *GDP per capita* of the parent MNEs home country, measured in 1000 US dollars. To calculate the geographic distance, we used the website of the US Department of Agriculture http://www.wcrl.ars.usda.gov/cec/java/lat-long.htm. GDP per capita data were obtained from World Development Indicators (online version). Further, we control for unobserved characteristics of the host emerging markets using *country dummies* for the four economies, and three industry dummies.

***** Table 1 approximately here *****

Table 1 reports descriptive statistics and the correlation matrix for the dependent and explanatory variables used in the regression analysis. Around 40% of the MNEs in the sample entered the four host countries with greenfield projects, and most of the remaining projects involved cooperation with local partners in the form of JV. Acquisitions accounted for a significant proportion of entries only in South Africa.

There were clear regional patterns with respect to the origin of the foreign investor. A significant proportion of the foreign investors in Egypt were from the Middle East, while most of the foreign investors in Vietnam were from Taiwan and other East Asian countries. India and South Africa, on the other hand, have attracted investment mostly from Anglo-Saxon and European MNEs, from countries with which both have had historic links. Japan, the largest

investor outside of North America and Europe, has significant investments in India and Vietnam, but negligible investments in Egypt and South Africa.

Regression specification

Given that *greenfield* is a dummy variable, we use the logit regression technique. The regression specification is given by the following equation:

$$greenfield = \alpha_0 + \alpha_1 (tangible\ resources) + \alpha_2(intangible\ resources) + \alpha_3(resource\ seeking) + \alpha_4(quality\ of\ local\ firms) + \alpha_5(quality\ of\ local\ labor) + \alpha_6(concentration) + \alpha_7(country\ experience) + \alpha_8(country\ experience \times services\ sector\ dummy) + \alpha_9(institutions) + \Sigma_i\gamma_i(time\ trend \times host\ country_i) + \alpha_{10}(R\&D) + \alpha_{11}(relative\ size) + \alpha_{12}(conglomerate) + \alpha_{13}(geographic\ distance) + \alpha_{14}(GDP\ per\ capita) + \Sigma_i\beta_i(industry_i) + \Sigma_i\beta_i(host\ country_i) + e.$$

where *e* is the randomly distributed error term. The expected coefficients are shown in Table 2.

Before proceeding with the regression analysis, we tested to ensure that there was no bias in the sample. We tested whether observations that had to be dropped on account of missing data are systematically different from those retained in the sample. This takes into consideration sample selection bias and corrects for it using the two-step Heckman procedure. The first stage regression of the procedure, in which a probit model is estimated with the dummy dependent variable taking the value 1 if an observation is included in the sample, had a low goodness of fit but the coefficient of the Inverse Mill's Ratio in the second stage was not statistically significant. Thus we reject the hypothesis that sample selection bias existed in the data used for the regression analysis.

***** Table 2 approximately here *****

RESULTS

The regression results are reported in Table 2. Column (1) to (4) report restricted models with all control variables, the time trends and, respectively, the variables used to test hypotheses 1 to 4. In addition to the significance of individual variables, we use χ^2–tests of exclusion of groups of variables to assess our hypotheses[6].

The regressions are all highly significant in the full specification, with a Wald χ^2–statistic of 91 and a MacFadden adjusted R^2 of around 11.4%. In addition to a large proportion of significant coefficients among the independent variables testing our hypotheses, discussed below, a number of the control variables are also statistically significant. In particular, greenfield entry is positively associated with geographic distance between the host economies, and significantly more common in Egypt and South Africa than in India or Vietnam. The regressions also confirm that there are significant industry effects on the choice of entry mode.

Hypothesis 1a: The χ^2–statistic for H1a is 19.6 in the restricted model (column 1) and 19.9 in the full model (column 5), both of which are highly significant. We predicted that firms requiring relatively more local resources would be less likely to enter by greenfield and this is confirmed by the significant negative coefficients on both the tangible and the intangible measures of local resource needs. The regression result may in particular be driven by investors need for factor inputs, e.g. skilled labor, real estate, electricity and telecommunications. Our cases suggest that foreign investors often cannot acquire such inputs in emerging markets without dealing with restrictive or complex legal codes concerning real estate ownership by foreigners.

[6] Sample sizes vary between regressions because of missing values. When the equations were run on a data set of constant size, the results were unchanged. We report regressions that make use of the maximum data available in each case.

For instance, real estate is a major constraint for foreign investors into Vietnam because only local firms are allowed to hold 'land-use rights' (see ____ & ____, 2004).

Hypothesis 1b: As predicted, the resource-seeking dummy is not significant in our regressions. While resource and market seeking investors vary greatly in terms of the resources they might acquire locally, both types of investors appear dependent to a similar extent on resources controlled by local firms, which thus induces cooperative entry. Thus, the market-seekers need for local marketing and distribution resources balances resource-seeking motives to acquire local firms.

Hypothesis 2: The χ^2–statistic for H2 is 14.8 in the restricted model (column 2) and 20.7 in the full model (column 5), both of which are highly significant. We predicted that in emerging markets, experienced foreign investors in manufacturing would be more likely to choose greenfield entry since they are less in need of local resources to achieve their strategic objectives. We find experienced manufacturing firms indeed to be more likely to invest in cooperative ventures. Thus, obstacles to identifying suitable partners, such as lack of reliable information systems concerning local firms and weakly developed capital markets, may initially inhibit the formation of JVs or acquisitions.

Our results appear to contradict those of Delios and Henisz (2003), who find that, in countries with high political uncertainty, Japanese investors are more likely to start by establishing a manufacturing JV, while in countries with low political uncertainty, (wholly owned) distribution operations precede the establishment of manufacturing JVs. Our four countries may be considered as having high political uncertainty though our results are consistent with the second pattern. The differences may arise because Delios and Henisz focus on Japanese investors only, and their data set does not distinguish between distribution operations in partial or

full foreign ownership.

Our cases suggest that, in emerging markets, local presence even without equity investment permits learning and network building, which in turns enables firms to identify suitable partners with whom to establish a manufacturing operation. For instance, Carlsberg provided turnkey breweries to several Vietnamese companies, and then formed JVs with two local brewers that had shown competence in adopting the turnkey technology. GlaxoSmithKline expanded in Egypt from a small base through multiple acquisitions of local pharmaceuticals firms. Local partners may bring the necessary political connections and prevent incumbents from using their networks to hinder foreign entry or growth. In fact, an existing partnership may create "lock-in" so subsequent FDI projects are undertaken with the same partner.[7]

A considerable body of literature shows that partner selection is crucial for the success of JVs (Hitt *et al.,* 2000). Hence, it would be sensible for foreign investors to start by establishing a small operation, such as a sales office. Greenfield may be better than cooperative modes in manufacturing industries in allowing for this initial learning experience. A typical entry sequence for manufacturers might therefore be from a small but fully owned sales operation to a manufacturing facility build jointly with a local partner or acquired from a local firm. Entry in services may follow the opposite pattern because, for most service industries, the geographic interdependence between sales and production makes it less useful to establish local offices for sales purposes only. This different role of experience in manufacturing and service industries is an interesting result for both the literature on experience in international business (Barkema & Vermeulen, 1998) as well as the emergent literature on differences of strategies between service and manufacturing MNEs (Brouthers & Brouthers, 2003).

[7] In India, a controversial regulation, known as 'press note 18 of 1998', requires de facto foreign investors to attain the approval of existing local partners for technology transfer of JVs to approve new projects.

Hypothesis 3: The χ^2–statistic for H3 is 15.5 in the restricted model (column 3) and 13.0 in the full model (column 5), both of which are highly significant. We predicted that, in emerging markets, local firms controlling valuable resources would attract cooperative modes, and we test it using as proxies the quality of local firms and their human capital. The coefficients are negative as predicted, and the human capital variable is significant. The effect of host market concentration on entry mode is signed negative as predicted but insignificant. Overall, the results do therefore provide support for our hypothesis. Thus, firms aiming at local markets would cooperate with local firms if these can provide valuable complementary assets, but enter with greenfield where they are weak.

Our cases illustrate that foreign investors form JVs with local firms if these control valuable assets (____ & ____, 2004). For instance, Carlsberg in Vietnam, Heinz in Egypt, and Baccardi-Martini in India all formed JVs to facilitate access to local distribution channels and brand names, as well as network relationships with the business community and with authorities. EST acquired a South African company, Ziton, which had a globally competitive product developed and marketed by the local entrepreneurial business.

Hypothesis 4. The χ^2–statistic for H4 is 24.92 in the restricted model (column 4) and 26.19 in the full model (column 5), both of which are highly significant. The institutional variable is not significant, but the time trends are consistent with the argument that improved institutional environments facilitate greenfield entry in India and Vietnam, with no such trend emerging in South Africa. In Egypt, the results suggest that the effect is even reverse; despite the liberalization of FDI regulation, the data suggest that some institutions affecting FDI in Egypt actually deteriorated. Thus, we see confirmation for the argument that over time greenfield has been more likely in countries that improved their institutional environment. The insignificance of

the institutions variable does not reject the hypothesis. Rather it appears that the time trends and the country dummies pick up the main variation of institutions in this dataset. The specific items included in our institutions variables may pick up issues of concern when deciding whether or not to invest, but not issues affecting the mode choice.

DISCUSSION AND CONCLUSIONS

We have argued that resource-based and institutional perspectives should be combined to analyze strategies in emerging economies; and we have shown how they can be integrated into a single analytical framework. Our empirical analysis provides support for the main tenets of the theoretical argument. Thus, we find MNEs adjust their corporate strategies to emerging market contexts to accommodate the institutional environment and the resource endowment, and to acquire or develop resources that provide competitive advantages in that environment (Figure 1). Investors' strategies for resource augmentation and exploitation vary according to context, and this influences their preferred mode of entering new markets.

Our empirical findings provide evidence for our theoretical framework. Local resource endowment is found to be important in terms of human capital, which is typically embedded in existing organizations. This indicates that, in the absence of resource-rich potential partners, cooperative strategies are not attractive. The relevance of institutions received support in form of time trends being consistent with our expectations. Thus, as the institutional framework creates a more level playing field between different types of competitors, greenfield entry becomes more realistic. The need for local resources is strongly confirmed as both tangible and intangible assets induce investors to seek local partners, because these resources are often organizationally embedded. Investors' own resources are relevant if they are transferable to the new operation. We

thus find that experience influences mode choice, but in different ways in manufacturing and service industries.

Together these results suggest that entry strategies are designed to combine optimally firm-specific advantages and locally available resources. Consequently, context-specific variables add considerable explanatory power to firm-specific features in explaining how firms enter emerging markets, and these influences differ from what we would expect for mature market environments.

The types of local resources that investors may access by cooperating with local firms vary between mature and emerging markets. In emerging economies, few firms enter to access general technological or managerial capabilities, as these are typically weaker than those one might find in industrialized countries. The attraction of local firms is more likely based on assets whose value arises from the specific domestic context. However, the lack of potential local partners is a major constraint on co-operative strategies. Partly as a consequence, MNEs in manufacturing appear first to establish a foothold, and then investigate how and with whom to build a cooperative venture. Future research on entry strategies ought to investigate the implications of this "supply-side" of resource-rich local firms that are potential partners, and how foreign investors find out about them, select between them, and build relationships.

This study has taken a first step at integrating the specificity and measurement of resources and institutions in emerging economies into the analysis of entry mode. We expect that this work will induce further research to explore the adaptation of corporate strategies to emerging economies, focusing on three issues: Firstly, scholars need to identify what resources provide competitive advantages in emerging economies, and how these differ from those required in industrialized countries. Secondly, the analysis needs to determine which of these resources are controlled by local

firms and cannot be replicated by foreign entrants. Thirdly, we need to develop better constructs and empirical proxies to capture these resources.

With respect to the third point, this study faces the limitations imposed by the use of a survey instrument. We considered it preferable to use firm level data, because in emerging economies key data are not available on a consistent and comparable basis across countries other than through survey instruments. While our sample size is sufficient for the present analysis, we would have liked to have more complete observations such that we could have conducted the same analysis for individual countries in the sample.

The survey has in particular been limited with respect to the assessment of the local business environment. Future studies may refine the questions we used to better capture the relevant aspects of the local resource endowment and the institutional framework. Researchers may moreover analyze in greater detail, which resources and dynamic capabilities are crucial for success in emerging markets, and integrate insights from such research in the entry strategy analysis.

The insights of this study are also of practical relevance for managers. In emerging economies, analytical models used to develop entry strategies need to incorporate explicitly the specific resources required to attain competitive advantages in the local context, and the control over such resources by local firms. Our theoretical framework outlines variables that foreign investors ought to take into account, notably the interaction of the global strategies and resources with the local resource endowment, the institutional environment, and the resources that – given this context – would provide competitive advantages. The relative strength of local firms may thus be as important as global strategy for designing an entry for a specific emerging economy. In other words, the supply side of local resources is a crucial variable in the strategic analysis to prepare entry in

emerging economies.

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Figure 1: Entry Mode Choice: Context and Firm-specific Influences

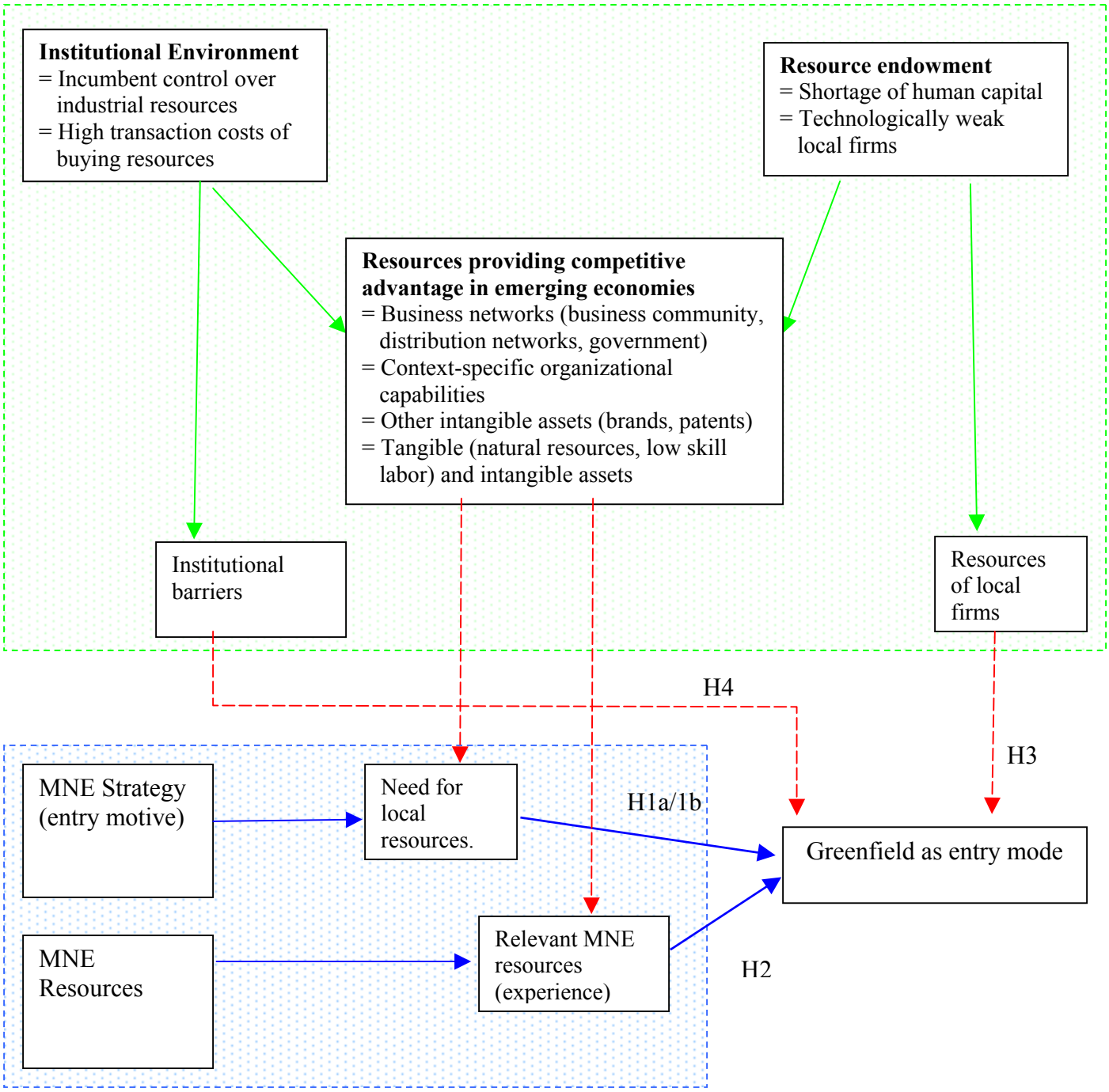

Table 2: Determinants of Choice of Entry Mode (Logit Regressions, Greenfield = 1)

	1	2	3	4	5
Local tangible resources	-0.008**				-0.01***
	0.003				*0.003*
Local intangible resources	-0.01***				-0.01***
	0.003				*0.003*
Resources seeking	-0.04				-0.05
	0.26				*0.29*
Experience		-0.72**			-0.91***
		0.27			*0.30*
Experience*services		1.35***			1.78***
		0.36			*0.39*
Concentration			-0.24		-0.43
			0.25		*0.29*
Human Capital			-0.39***		-0.39***
			0.13		*0.14*
Local firm quality			-0.18		-0.15
			0.11		*0.13*
Institutions				0.07	0.01
				0.13	*0.15*
Time trend x Egypt	-0.12*	-0.09	-0.14**	-0.10	-0.17**
	0.07	*0.07*	*0.07*	*0.06*	*0.08*
Time trend x India	0.27***	0.27***	0.26**	0.24**	0.34**
	0.10	*0.1*	*0.11*	*0.09*	*0.14*
Time trend x South Africa	-0.04	-0.06	-0.08	-0.07	-0.04
	0.74	*0.07*	*0.07*	*0.07*	*0.08*
Time trend x Vietnam	0.39***	0.38***	0.40***	0.40***	0.41***
	0.09	*0.09*	*0.1*	*0.09*	*0.10*
R&D intensity of parent	0.07	0.09*	0.07	0.08	0.07
	0.05	*0.05*	*0.05*	*0.05*	*0.06*
Relative size of local affiliate	0.36	0.46**	0.32	0.36	0.56**
	0.25	*0.23*	*0.24*	*0.22*	*0.28*
Conglomerate	-0.08	-0.26	-0.02	-0.16	0.13
	0.31	*0.31*	*0.32*	*0.30*	*0.35*
Geographic distance	0.18***	0.17***	0.17***	0.16***	0.20***
	0.04	*0.04*	*0.04*	*0.04*	*0.04*
GDP per capita of home country	-0.027**	-0.03**	-0.02**	-0.03**	-0.02*
	0.01	*0.01*	*0.01*	*0.01*	*0.01*
Egypt	3.43***	3.02***	3.73***	3.33***	4.01***
	0.834	*0.8*	*0.89*	*0.81*	*0.95*
South Africa	1.33	1.23	1.85**	1.53*	1.78*
	0.829	*0.82*	*0.87*	*0.84*	*0.91*
India	0.67	-0.14	0.26	0.22	-0.12
	0.974	*0.96*	*1.03*	*0.95*	*1.17*
Industry dummies	yes	yes**	yes	yes	yes*

Constant	-2.796***	-3.20***	-1.73**	-3.49***	-1.63
	0.74	*0.72*	*0.87*	*0.88*	*1.10*
χ^2, H1 (df in parentheses)	19.6 (2)***				19.9 (2) ***
χ^2, H2 df in parentheses)		14.8 (2) ***			20.7 (2) ***
χ^2, H3 (df in parentheses)			15.5 (3) ***		13.0 (3) ***
χ^2, H4 (df in parentheses)				24.92 (5) ***	26.19 (5) ***
Log Likelihood	-273.14	-281.72	-259.95	-287.73	-227.83
Wald chi-square	66.78	71.55	59.36	56.65	90.92
(prob chi-square)	0.000	0.000	0.000	0.000	0.000
Macfadden's adjusted R-square	0.08	0.076	0.064	0.055	0.114
Number of observations	468	447	440	473	422

Notes. Levels of significance: *** 1%, ** 5%, * 10%

Table 1: Means, standard deviations and correlations

		Mean	(Std.Dev.)	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15
Greenfield (D)	1	0.41	0.49	1.00														
Need for local tangible res.	2	20.61	35.25	-0.15	1.00													
Need for local intangible res.	3	44.03	34.64	-0.19	0.21	1.00												
Resource seeking (D)	4	0.25	0.43	0.09	-0.03	-0.13	1.00											
Industry Concentration (D)	5	0.27	0.45	0.06	0.15	0.08	0.08	1.00										
Human Resources of local firms	6	3.72	0.92	-0.20	0.01	0.10	-0.04	0.00	1.00									
Resources of local firms	7	2.83	1.04	-0.09	0.07	0.09	0.00	0.09	0.17	1.00								
Experience	8	0.44	0.50	-0.04	0.02	0.02	-0.03	0.05	0.03	0.00	1.00							
Experience * Services	9	0.20	0.40	0.12	0.06	0.03	-0.07	0.07	-0.01	-0.03	0.56	1.00						
Institutions	10	2.75	0.81	0.07	0.03	-0.09	-0.03	0.03	-0.26	-0.14	-0.06	0.01	1.00					
R&D intensity of parent firm	11	3.12	2.07	0.04	-0.08	-0.07	-0.02	-0.01	-0.02	0.08	0.07	-0.05	0.01	1.00				
Relative size of affiliate (D)	12	0.31	0.46	0.12	0.08	-0.09	0.28	0.15	-0.06	-0.07	-0.06	-0.10	0.03	-0.02	1.00			
Conglomerate (D)	13	0.16	0.37	-0.06	0.06	0.02	-0.12	-0.05	0.04	0.05	0.09	0.09	-0.10	-0.11	-0.15	1.00		
Geographic distance/1000	14	6.54	4.03	0.00	0.02	0.22	-0.07	-0.01	0.04	0.13	0.09	0.01	-0.07	0.20	-0.22	-0.10	1.00	
GDP per capita, home country/1000	15	21.45	10.49	-0.06	0.00	0.06	-0.05	-0.11	0.09	-0.04	0.11	0.07	-0.02	0.13	-0.23	-0.09	0.38	1.00

Notes: n=422, correlations over 0.09 are significant at 5% level. (D) = dummy variable.