

FOREIGN ENTRY MODE OF KNOWLEDGE-BASED SERVICE FIRMS AND INTERNATIONAL PERFORMANCE – A RESOURCE BASED PERSPECTIVE

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ABSTRACT

Companies planning an internationalization venture face a great variety of options regarding the entry mode, namely export (direct and indirect), cooperative arrangements (licensing, franchising, minority holding, contract manufacturing and management contracting) and direct investments (joint ventures and subsidiaries) (Root 1994). These alternatives come along with different resource commitments, modes of control and risks. Therefore, the decision for an appropriate entry mode calls for consideration of numerous influencing factors posing a big challenge for internationalizing companies. Because of the importance for the success of internationalization venture (Hill et al. 1990) the choice of foreign market entry mode is well discussed in the marketing literature (e. g. Bradley and Gannon 2000; Ekeledo and Sivakumar 2004; Erramilli 1992; Erramilli 1990; Hill et al. 1990; Mayrhofer 2004; Rasheed 2005). Despite the abundance of studies however, there are several research gaps.

First, most of the studies analyzing market entry mode issues focus on manufacturing firms (e. g. Anderson and Gatignon 1986; Hill et al. 1990). Against the background of an increasing importance of services in the global economy (Knight 1999), it is surprising that prior studies have largely neglected the entry mode choice of services and knowledge-based services such as accounting, management consultancy, project management, legal services, engineering and architecture, marketing and advertising, and research-and-development consultancy in particular. Furthermore, there are some specific characteristics of knowledge-based services, such as intangibility, inseparability, heterogeneity and perishability (Zeithaml et al. 1985), which crucially differ from manufacturing goods in some meaningful aspects. These specific characteristics of knowledge-based services cause convincing arguments that service and manufacturing entry mode choices differ (Brouthers and Brouthers 2003; Erramilli 1992, Erramilli and Rao 1993; Winsted and Patterson 1998).

Second, most of the research focuses on the question why companies choose a specific entry mode. Studies analyzing the impact of the entry mode on international performance are largely missing. Consequently, there is hardly any knowledge whether the entry mode choice is really effective.

Third, most of the studies regarding foreign entry mode choice draw on transaction cost theory (e. g. Anderson and Gatignon 1986; Erramilli and Rao 1993). Transaction cost theory (TCA) treats a foreign market entry as transaction carried out at optimal cost, which is largely isolated from business strategy (Hill et al. 1990). Researchers criticize it mainly for the fact that not only cost advantages and economies of scale play a decisive role for service providers, but also strategic considerations (Hill et al. 1990; Peng 2001; Sanchez-Peinado et al. 2007). The resource based view (RBV) has recently emerged in the literature as an alternative to explain the choice of foreign entry mode to get over disadvantages of TCA (e. g. Ekeledo and Sivakumar 2004; Sharma and Erramilli 2004).

Against this background, the aim of this paper is to analyze the relationship between different entry mode and the international performance of knowledge-based service. Based on resource based view and the specific characteristics of knowledge-based services, the specific knowledge of the service employees, their cultural competencies, existing relationships to customers, intangible assets like brand name and reputation, appropriate foreign market knowledge and financial resources are identified as crucial for a successful internationalization of knowledge-based services. Furthermore, hypotheses regarding the relationship between entry mode choice and international performance of knowledge-based services are developed. We aim to test the hypotheses with an empirical study. As research object we chose industrial firms for which knowledge-based services are particularly important. In our study we focus on an internationalization venture in a specific foreign market. This is favourable to use instead of a whole firm as the unit of analyses as a lot of other studies do. The hypotheses we depicted should be tested with an analysis of variance.

References are available upon request