1-1-2006

Leveraging Internal Competency and Managing Environmental Uncertainty: Propensity to Collaborate in International Markets

Syed H. Akhter
Marquette University, syed.akhter@marquette.edu

Fernando Robles
George Washington University

Accepted version. *International Marketing Review*, Vol. 23, No. 1 (2006): 98-115. DOI.

Leveraging internal competency and managing environmental uncertainty: Propensity to collaborate in international markets

Syed H. Akhter[a]
Marketing Department, Marquette University
Milwaukee, WI

Fernando Robles[b]
The George Washington University
Washington, District of Columbia

Abstract:

Purpose*–The choice of an international market entry mode involves two critical considerations, leveraging internal competencies and managing environmental uncertainties in host countries. The purpose of the paper is to explicate how these two considerations affect the propensity to collaborate in international markets.*

Design/methodology/approach*–The paper builds on existing theories and develops hypotheses showing relations between competencies and uncertainty and collaboration in international markets.*

Findings*–Conceptual relations show that the goals of leveraging competencies and managing environmental uncertainty in host countries have varying effects on the level of international collaboration.*

Originality/value*–The effects are shown through the integration of different theories and empirical findings. Furthermore, the significance of collaboration in international market entry decisions is established. Directions for future research are also provided.*

International Marketing Review, Vol 23, No. 1 (2006): pg. 98-115. DOI.

Keywords: International marketing, Market entry, International business, Competences, Uncertainty management.

Several theories have been proposed to explain international market entry decisions. Whitelock (2002, p. 346) reviewed some of these theories, the Uppsala model, the eclectic paradigm and the transaction cost model, the business strategy approach, and the industrial networks model, and recommended that a model that incorporates "the key elements of each approach may present a more realistic and comprehensive picture of the market entry decision." The limitations of these theories in today's global economy have become more pronounced as firms confront a more volatile and competitive world. Axinn and Matthyssens (2002), for example, make the point that recent economic and technological developments have made existing internationalization theories insufficient in explaining the behaviors of firms in the international marketplace.

Although the existing theories take different approaches and focus on different factors to explain entry mode selections, a common thread running through them is that the choice of an entry mode is influenced by both firm- and market-related factors. Building on this common thread, it is being proposed that competency, a firm-related factor, and uncertainty, a market-related factor, provide an integrative approach to explaining entry mode selection. Furthermore, as competency is neither specific to certain types of firms, such as multinationals or small- and medium-sized firms, nor specific to firms from specific economies, such as the developed or developing economies, and as uncertainty is neither a region nor a country specific phenomenon, the use of these two concepts provides a more comprehensive view of the international entry mode selection. Luo (2001), for example, highlights the significance of these two concepts by indicating that the entry mode choice is an endogenous choice which is based on internal capabilities and external contingencies.

Competencies are bundles of skills and technologies that are critical sources of competitive advantages (Hamel and Prahalad, 1994). Teece and Pisano (1994) suggest that competitive advantages stem from dynamic capabilities rooted in high performance routines and embedded in the firm's processes. Firms recognize that competitive advantages stemming from these competencies can be leveraged through international expansion. However, they also

recognize that their ability to leverage these competencies is contingent upon different types of environmental uncertainties in host countries. In particular, uncertainties, arising out of the changing nature of competition, markets, and regulations, force firms to evaluate whether or not they will be able to achieve their strategic and operational goals in host countries. Thus, as has been argued in the literature, the selection of an entry mode is influenced by core competencies and vulnerability to external changes in a host country (Gomes-Casseres, 1989; Hill *et al*., 1990).

A key decision that firms have to make at the entry stage is whether to collaborate with other firms. In discussing the international market entry decision, Gomes-Casseres (1989) argues that the differing capabilities of multinational firms provide the rationale for the choice between internalization and collaboration. This paper analyzes how the strategic goals of leveraging competencies and managing uncertainties impact the propensity to collaborate. To achieve this goal, we have organized this paper as follows. The first section reviews the different theories of international market entry strategies and highlights the key decision criteria, assumptions, and goals. The second section discusses the impact of leveraging internal competencies and managing environmental uncertainties on the propensity to collaborate. The third section develops the conceptual relations and presents propositions. The final section summarizes the theoretical and managerial implications and provides recommendations for future research.

Theoretical approaches to international market entry strategy

The entry mode is defined as an institutional arrangement for organizing and conducting international business transactions through contractual transfers, joint ventures, and fully owned subsidiaries (Root, 1987). Several theories have been proposed to study how firms make international market entry decisions. We review the transaction costs theory, internalization theory, the eclectic (OLI) paradigm of international business, and the internationalization process model of international expansion. Although the salient features of these theories have been extensively discussed in existing studies (Andersen, 1997; Ekeledo and Sivakumar, 1998; Kumar and Subramanian, 1997;

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Madhok, 1996, 1997), we review them briefly for the purpose of framing their impact on the entry decision. A summary of these theories is presented in Table I.

The transaction cost theory (Williamson, 1975), positing that firms internalize those activities that they can perform more efficiently and outsource others that external providers can perform at a lower cost, has been used extensively to study the efficiency of international market entry strategies (Anderson and Gatignon, 1986; Beamish and Banks, 1987; Erramili and Rao, 1993). According to this theory, the overriding goal of the firm is to minimize transaction costs. Assuming that the markets are competitive, the transaction cost theory does not address the issues of competencies and market uncertainty directly, but presumes their impact on entry decisions. Furthermore, as this theory is specifically applicable to multinational corporations involved in direct investment, it has been regarded as of limited relevance for firms considering various kinds of cooperative agreements (Axinn and Matthyssens, 2002). Notwithstanding these limitations, the logic underlying transaction costs has served as a foundation for developing new theories.

The internalization theory extends the transaction cost theory by viewing the firm as a hierarchical structure that makes possible the allocation of resources across international markets and products (Buckley and Casson, 1976, 1998; Rugman, 1980, 1981). As an extension of the transaction cost theory, it incorporates the influence of other determinants of market entry decision, such as location, culture, market structure, and competitive strategy. According to this theory, the goal of the entry decision is to maximize return, based on the assumption that the decision makers can assess all viable alternatives – no bounded rationality. A drawback of this theory, which it shares with the transaction cost theory, is that it focuses on multinational corporations involved in direct investment (Axinn and Matthyssens, 2002).

The eclectic (OLI) paradigm argues that the entry strategy can be explained by the ownership (O), location (L), and internalization (I) advantages of a firm over other international and local firms (Dunning, 1988, 1993, 1995). The paradigm integrates several determinants and views entry strategy as tradeoffs between desirable levels of return, risk, control, and resource commitment. As the eclectic paradigm

attempts to incorporate different perspectives on entry mode, it fails to meet the critical criterion of parsimony in explaining entry decisions. Johanson and Valhne (1990) also argue that the eclectic paradigm is static and Johanson and Mattson (1986) believe that the model leaves out firm and market characteristics that seem important in industrial setting.

The internationalization process model advocates a gradual increment of resource commitment and risk taking (Andersen, 1993; Johanson and Valhne, 1977). The underlying logic is that as firms become more experienced in international markets, they commit more resources and learn to adapt and better manage environmental uncertainties. According to this theory, international market entry strategy follows a continuum from low-to-high commitment of resources and risk taking over time. Thus, the theory predicts that firms would begin the internationalization process with indirect exporting and conclude with greenfield investments. The main goal is to manage organizational learning in international markets. The process model has been challenged as being too limited with its focus on only one explanatory variable (Andersen, 1997; Johanson and Valhne, 1990). In addition, its deterministic view of the internationalization process ignores the complexity of the entry decision.

Competencies, uncertainties, and market entry decisions

Recent research indicates that managers tend to follow a hierarchical process in which they first consider only the key strategic aspects of the entry decision (Kumar and Subramanian, 1997; Tallman and Shenkar, 1994). We argue, as the intended contribution of this paper, that the key strategic considerations in international market entry is to leverage internal competencies and manage uncertainties in the decision to whether or not to collaborate with other firms in international markets. The view of the interface between the firm and its environment has an established tradition in the strategic management literature (Andrews, 1971; Peteraf, 1993). Supporting this view, Tallman (1991) argues that the multinational firm develops strategies to protect and exploit competitive advantages based on unique resources or competencies and that their entry strategies

attempt to reduce uncertainty and improve performance in host markets. Srivastava *et al*. (1998) also suggest that the role of corporate office in response to competitive developments has changed from that of an arbiter of financial capital to one of a trustee of internal competencies. Varadrajan *et al*. (2001) further argue that growth strategies of firms are guided by the focus on competencies instead of financial synergies.

Firm's experience has shown that a poor entry decision can adversely impact global value chain activities and performance (Chowdhury, 1992; Li, 1995; Nitsch *et al*., 1996; Woodcok *et al*., 1994). The pressure to produce consistently superior returns under changing circumstances has led to the view that multinational firms should focus on continuous resource recombination for wealth creation (Teece *et al*., 1997), constantly rethinking their internal structures and resource deployment. Thus the goal in selecting the international market entry strategy is to transfer and recombine resources across borders to leverage internal competencies in uncertain environments. Firms possessing these competencies are thus motivated to enhance their rent earning capabilities by expanding the scope of the market. However, the degree to which they can exploit these assets depends on context (market) specificity. Thus, Prahalad and Hamel (1990) suggest that not only market-related factors but also the competencies that firms possess will influence market entry decisions.

In Figure 1, we show the influence of different dimensions of internal competency and uncertainty on the decision to collaborate. Examining the entry decision from the perspective of collaboration offers not only the benefit of incorporating strategic considerations into the decision process but also the choice of selecting from a set of entry options. If, for example, collaboration is chosen, the firm can consider different alternatives including contractual agreements and equity joint ventures. On the other hand, if collaboration is not the choice, the firm can consider either an acquisition or greenfield investments. In the following sections, we advance several propositions related to the two strategic determinants of the decision to collaborate in international markets.

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Internal competency

Asset specificity and internal competencies

Firm-specific investments are central to the exchange process (Williamson, 1975). Customized assets such as equipment and proprietary routines and processes constitute internal competencies of firms that enable them to achieve efficiency and improve performance. Specific assets represent substantial investments by the firm. A firm considering deploying these assets in collaboration with other firms in international markets may thus be concerned about the perceived risk of maladaptation and opportunism. Efforts to minimize these risks may require supervision and monitoring which give rise to transaction costs. Thus, higher levels of asset specificity will increase transaction costs of shared governance.

Resource-based theory arrives at the same conclusion but from a different perspective. According to this view, the more specific an activity becomes to the firm, the greater is its use of firm-specific language and routines, and hence the more efficient is its internal governance (Kogut and Zander, 1992). Thus, the internalization of these competencies contributes to both performance and efficient governance. This effect is particularly important in very complex organizations where common internal language and routines facilitate the transfer and adaptation of critical assets and knowledge to specific tasks. Extending this to an international market entry decision, Kogut and Zander (1992) argue that the most efficient way to transfer technology and firm know-how (internal competencies) is through fully controlled subsidiaries. In addition, a fully controlled governance structure eliminates the risks of opportunism and maladaption. Consequently, based on the transaction cost and resource-based theories, we advance the following proposition:

P1. The greater the asset specificity, the lower the propensity to collaborate in the international market entry strategy.

Strategic resources and internal competencies

The firm's resources can be defined as those tangible and intangible assets which can be considered a strength or weakness (Wernerfelt, 1984) or which enable the firm to conceive and

implement strategies that improve efficiency and effectiveness (Barney, 1986). These resources include physical capital resources, human capital resources, and organizational capital resources (Barney, 1986). Collectively, these resources determine the internal competencies of firms and shape how well they perform to achieve their goals. A subset of these resources, referred to as strategic assets, provides the firm with the ability to generate above-normal rates of return and achieve a sustainable competitive advantage (Shoemaker and Amit, 1997). These strategic assets enable the firm to perform activities better or more cheaply than competitors (Collis and Montgomery, 1995). Firms build and accumulate these strategic assets through their efforts to hone in on the market (Teece *et al*., 1997) and reconfigure their current and acquired knowledge (Kogut and Zander, 1992). The variations in strategies and resource endowments lead to differences in firm's abilities to generate rents (Barney, 1986). The resource-based theory attributes the persistence of above normal returns to fundamental differences in the strategic resources themselves, which are considered nontradable, nonimitable and nonsubstitutable. Consequently, a sustainable competitive advantage depends on the actions of the firm to create, maintain, and renew the resource endowment (Dierickx and Cool, 1989).

As the level of strategic resource stocks determines a firm's competitive position, a critical element is to choose a particular path of resource development. Kogut and Zander (1992) argue that expansion into foreign markets is an example of this development path. When firms expand internationally, they use their combinative capability to exploit their resources and those of the foreign market to create a new competitive platform where learning from the new venture accumulates not only in the new venture but also in the knowledge stock of the parent firm. Under this perspective, the international market entry strategy is an attempt to replicate strategic assets under a firm's control in another country. Since the goal is to preserve the value of the strategic resource, firms will prefer full control when the technology is protected and its replicability is hard. If, on the other hand, competitors can replicate the technology easily, contractual agreements may be considered the efficient ways to transfer technology to foreign countries. We, therefore, advance the following proposition:

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P2. The harder the replicability of strategic assets, the lower the propensity to collaborate in the international market entry strategy.

Replication involves transferring or redeploying strategic resources (assets and competencies) from one economic setting to another (Teece *et al*., 1997). The more tacit the firm's productive knowledge and organizational capabilities, the harder it is to replicate the ability in international settings. Tacitness refers to the extent to which knowledge is complex and hard to codify (Polanyi, 1958). Thus, to facilitate transfer and reduce replication costs, firms may have to codify their tacit knowledge. Codifiability has been defined as the effort to structure knowledge into a set of identifiable rules and relationships that can be easily communicated (Kogut and Zander, 1993). The paradox that emerges from codification, however, is that making knowledge explicit may encourage imitation. Thus, partnerships with other firms increase the potential for opportunism and leakage of technology to local companies.

Furthermore, Kogut and Zander (1993) argue that the choice of whether the transfer is through the firm or through others also depends on the codifiability, teachability, and complexity of what is being transferred. In a study of 82 transfers of innovations to international markets either through a wholly-owned subsidiary or licensing or a joint venture, Kogut and Zander (1993) found support for the hypothesis that firms prefer to transfer their innovations through fully controlled subsidiaries when technologies are more difficult to codify, teach to others, and are more complex. They conclude with the observation that the most important advantage to maintaining the ambiguity of the transfer is to provide the subsidiary with advantages that are resistant to imitation by local competitors. Several studies support that firms prefer higher control modes when transferring more tacit resources (Hill *et al*., 1990; Kim and Hwang, 1992). Based on these arguments, we advance the following proposition:

P3. The greater the tacitness of strategic assets, the lower the propensity to collaborate in the international market entry strategy.

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Context specificity and internal competencies

The advantages of internal competencies reside not only in specific assets but also in human resources and specialized routines related to business activities. These specific assets, resources, and routines, developed in a given context, may not be replicable or valuable in international contexts. Tallman (1991) suggests that only firm-specific resources which are compatible with characteristics of host markets are likely to generate economic returns. However, the firm may suffer both an erosion of rent earning potential and an increase in adaptation costs in the new environment even if the transfer takes place within the hierarchy of the firm (Kogut and Singh, 1988). Thus, the rent generating potential of internal competencies and the offsetting adaptation costs will depend on the target country cultural context.

The target country cultural context includes the idiosyncratic ways of doing business in a particular country. In a more culturally distant country, the complexity of doing business will be perceived as high. This complexity has been the reason why many firms enter these markets through collaborative arrangements, enlisting a local partner to help navigate and unravel the intricate ways of doing business in these countries (Kogut and Singh, 1988). The more similar the target country's contextual environment, the more likely that the firm will be able to replicate the rent generating potential of valuable assets and lower the adaptation costs. Conversely, the greater the difference of contextual environments the greater the adaptation costs and less likely that the rent generating potential can be replicated. We, therefore, advance the following proposition:

P4. The greater the cultural context similarity between home and host country, the lower the propensity to collaborate in the international market entry strategy.

Organizational culture is generally a reflection of the culture in which a firm is based (Dunning, 1993). While this may be true, organizational environments are also influenced by forces specific to the industry, markets, employees, and origin. Thus, there will be differences in organizational cultures of firms across industries and even within an industry in a host country. When firms venture out, they usually judge the compatibility of potential partners based on

their own experiences and orientations. When the partner's cultural values and routines are considered similar, adaptation costs are judged to be less prohibitive. On the other hand, when partner's organizational cultural values and routines are considered dissimilar, adaptation cost due to communication ineffectiveness are judged to be prohibitive. Based on the above arguments, we advance the following proposition:

P5. The greater the organizational cultural similarity between home and host country, the higher the propensity to collaborate in the international market entry strategy.

Uncertainty

Different types of international risks are present in the choice of an entry strategy because of the uncertainty surrounding the transfer of strategic and financial resources to international markets (Brouthers, 1995; Dunning, 1995; Hennart, 1988; Root, 1987). Uncertainty represents unanticipated changes in the circumstances surrounding the transactions (Duncan, 1972). Two types of uncertainty have been noted to impact entry decisions: environmental uncertainty and behavioral uncertainty. Environmental uncertainty refers to changes in the external environment that are exogenous and largely unaffected by the firm's actions. The changes in the external environment result from developments in technology, competition, regulations and other external factors that shift the conditions in which decisions are made (Folta, 1998). Behavioral uncertainty refers to the inability of managers to predict the actions and plans of potential partners or of members within the firm. Behavioral uncertainty arises from opportunism and is present when firms depend on or share decisions with others (Williamson, 1975).

Research on mode of entry has focused on decision makers' perception of the type and level of uncertainty, defined as perceived environmental uncertainty (Duncan, 1972; Lawrence and Lorsch, 1967). In a comprehensive review, Miller (1992) identifies three categories of perceived environmental uncertainty: environmental uncertainty which includes political, policy, macroeconomic, social, and natural uncertainties; industry uncertainty which includes input, product, and competitive market uncertainties; and firm uncertainty which includes operating, liability, R&D, credit, and behavioral

uncertainties. Miller's (1993) empirical validation, however, established the reliability and dimensionality of only the first two dimensions of the environmental uncertainty. In a subsequent study, Werner *et al*. (1996) analyzed the dimensionality of Miller's international risk framework and proposed a revised five-dimensional index which includes the following dimensions: macroeconomic, political/governmental, materials (supply), product market, and competitive.

In the international business literature, the choice of a mode of entry has been viewed as a risk reduction strategy (Ahmed *et al*., 2002; Brouthers, 1995; Dunning, 1995; Hennart, 1988; Root, 1987). Managers assess the presence and impact of different types of uncertainty before deciding on the mode of entry to mitigate risk. The appropriateness of each mode is judged by the type of uncertainty present in the market. In the following section, we examine the nature of the impact of different sources of uncertainty and present propositions related to uncertainty.

Since external uncertainty is multidimensional, we explore the relation of each of its dimensions to the propensity to collaborate or internalize.

Perceived macroeconomic uncertainty

Miller (1992) defines macroeconomic uncertainty as the unpredictability of fluctuations in economic activities and prices in a host country. Macroeconomic volatility stems from inadequate domestic monetary and fiscal policies. However, in today's global economy, even countries with sound macroeconomic policies can experience volatility when external shocks hit their domestic economies. Countries with high macroeconomic volatility are less likely to attract long-term direct investments (Goldberg and Kolstadt, 1995), as firms would consider other forms of entry that require less resource commitment.

At the firm level, macroeconomic volatility in exchange rates, interest rates, and prices result in potential transaction, translation, and economic risks. While transaction and translation risks have a short-term impact on a firm's financial position, economic risks affect the long-term ability of firms to compete effectively in the target country. For example, a decision to manufacture locally requires that

all relevant costs be incurred in the local currency. A rapid and unanticipated appreciation of the local currency will place this firm at a disadvantage *vis-à-vis* import competition. Thus, to manage these risks, firms need strategic flexibility to make operational adjustments (Jacque, 1981). We argue that this strategic flexibility is obtained with greater collaboration with local partners. Given that firms would be reluctant to commit resources and would prefer to maintain some degree of strategic flexibility, they will be more likely to collaborate in international markets when macroeconomic uncertainty is high. Sutcliffe and Zaheer (1998) argued that when macroeconomic uncertainty is high, flexibility becomes paramount in minimizing risks. They found a negative association between uncertainty and the decision to vertically integrate (internalize), speculating that firms opt against risky investments and remain flexible when the macroeconomic environment is uncertain. Therefore, we hypothesize the following:

P6. The higher the perceived macroeconomic uncertainty, the higher the propensity to collaborate in the international market entry strategy.

Perceived political/government uncertainty

Political and government uncertainty refers to the inability of managers to predict political and regulatory developments (Miller, 1992). Political risk is the probability that these developments can negatively impact the firm's operations, assets, profitability, and significantly impede the attainment of critical business goals (Robock, 1971). Uncertainty about political and regulatory developments exists because of limited information, the complexity of the political environment, or differences of opinions among managers involved in international business investment decisions. These developments can affect the business environment in host countries through changes in regulation, trade barriers, ability to transfer assets or profits, or unilateral cancellation of contracts (Brewer, 1983). The operationalization of governmental and political risks has broadly been referred to as country risks (Goodnow and Hanz, 1972).

Several studies on the impact of governmental and political uncertainties make the argument that firms adjust their entry strategies to reflect the level of country risk. These studies

hypothesize that the greater the country risk the greater the probability that firms will choose to share these risks and minimize exposure of critical assets (Anderson and Gatignon, 1986; Root, 1987; Luo, 2001). Kwon and Konopa (1993, p. 64) argued that in "nations where political risks are perceived to be high, it is unlikely that a high resource commitment entry mode will be undertaken." And as Gatignon and Anderson (1988) noted, risk by itself should lead to a need for greater flexibility and therefore to the use of lower-control governance modes. As an entry mode, collaboration may not only reduce governmental and political uncertainty, because of the potential influence of local partners on key political actors, but also may act as a buffer against discriminatory governmental actions.

Empirical evidences indicates that when country risk was high firms were more likely to use collaborative ventures such as shared control in international export channels (Auklah and Kotabe, 1997); joint ventures rather than wholly-owned subsidiaries (Bell, 1996); licensing and joint ventures rather than wholly-owned subsidiaries (Kim and Hwang, 1992) – all options under collaboration. Gatignon and Anderson (1988) found that the probability of using wholly-owned subsidiaries declined with increased country risk. Benito (1996), for example, found that Norwegian manufacturing firms were reluctant to go alone when entering high risk countries. And Luo (2001) found that the higher the perception of host government intervention, the higher the probability that a joint venture will be used at the entry stage. We, therefore, hypothesize the following:

P7. The higher the perceived political and governmental uncertainty, the higher the propensity to collaborate in the international market entry strategy.

Perceived supply uncertainty

Several studies, using transaction costs theory, have demonstrated a positive association between environmental uncertainty and vertical integration (Harrigan, 1985; Klein, 1989; Walker and Weber, 1987). However, recent studies on collaboration in the supply chain literature show an increased preference for outsourcing and deverticalizing the firm (Fawcett and Magnan, 2002). With the global expansion of supply chains, increased trade liberalization, global economic integration, and increased global

supplier connectivity, firms have increased their collaborative efforts with suppliers to manage uncertainties. Greater efficiencies and responsiveness of supply chains to demand and input price volatility make collaboration an attractive option. We argue that firms will seek flexibility and efficiency in such an environment through collaborative arrangements. We, therefore, propose the following:

P8. The higher the perceived supply uncertainty, the higher the propensity to collaborate in the international market entry strategy.

Perceived product/market uncertainty

Miller (1992) refers to product market uncertainty as the unexpected changes in consumer demand, lack of availability of complementary products, and presence of substitute products that may adversely impact demand for the firm's products and services in the foreign target market. Demand uncertainty clearly casts a doubt on the future streams of revenues and investment returns in the host country. Harrigan (1985) argues that demand uncertainty is high when the industry is young and customers are reluctant to try new products. Furthermore, under conditions of high demand uncertainty, the risk of having too much excess capacity makes firms opt for more strategic flexibility in outsourcing supply.

Based on Harrigan's (1985) argument, several studies on market entry have observed that when demand uncertainty in host countries is high, firms may be unwilling to commit substantial resources (Kim and Hwang, 1992) or commit to specific strategies that create strategic inflexibility (Kulkarni, 2001; Ghemawat, 1991). They may also seek a position that enhances their ability to exit the market and be able to change partners or product offerings relatively easily as circumstances warrant. In essence, when demand uncertainty in the foreign country is high firms will seek to minimize resource commitments, keep strategic flexibility to change partners or exit the market quickly. For these reasons, we postulate that under high product market uncertainty firms are more likely to collaborate. Thus, we hypothesize the following:

P9. The higher the perceived product/market uncertainty, the higher the propensity to collaborate in the international market entry strategy.

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Perceived competition uncertainty

Competition uncertainty refers to the unpredictability of the future state of competition in the host country market (Miller, 1992; Shroff, 2002). Harrigan (1985) identified competitive uncertainty as one of the key factors influencing the level of vertical integration. According to Harrigan (1985), the volatility of competition stems from structural traits in the industry and the competitive practices of market players. Structural traits that impact volatility include the level of industry concentration and exit barriers, with high concentration and high exit barriers leading to less volatility. Competitive practices that impact volatility include frequent product redesign and price cutting in the face of product obsolescence. Competition uncertainty is highest in embryonic industries and at the early stages of the product life cycle. Harrigan (1985) hypothesizes that under high competition volatility, firms are less likely to embrace vertical integration to avoid costly overhead and to maintain strategic flexibility.

The underlying logic of vertical integration and competitive uncertainty has been extended to the mode of entry literature by several authors. Kim and Hwang (1992) argue that when the intensity of competition is high, multinational firms favor entry modes that involve low resource commitments. Kulkarni (2001) argues that firms that perceive competition uncertainty as very high may prefer licensing to other modes of entry. Furthermore, Kulkarni (2001) posits that as the competitive uncertainty in the host country diminishes firms are more likely to use wholly-owned subsidiaries. Ahmed *et al*. (2002) argue that firms choose different entry modes according to their perceptions of competitive rivalry in the foreign country. Brouthers *et al*. (2002), however, note the differences between service and manufacture firms and argue that the greater the perceived uncertainty of competition the greater the use of integrated modes for service firms, and the greater the use of independent modes for manufactured firms. Extending the logic of Harrigan's vertical integration argument to market entry, we posit that competition uncertainty increases the need for risk sharing among firms to avoid potential losses. Thus, in market entry decisions, firms will prefer to collaborate with local partners or competitors as perceived uncertainty of competition increases. We, therefore, propose the following:

P10. The higher the perceived competitive uncertainty, the higher the propensity to collaborate in the international market entry strategy.

Internal uncertainty

Firm specific or internal uncertainty has been characterized as behavioral (Williamson, 1975) and as internal or endogenous (Folta, 1998). In a collaborative venture, such uncertainty arises from opportunistic and self-seeking behavior of different actors or from the inability of firms to predict the intentions and behaviors of partners. Although progress has been made in reducing opportunistic behavior through contractual and non-contractual agreements and through trust building, the perceived internal uncertainty remains an important consideration in selecting an entry strategy. Internal uncertainty in collaborative agreements comes from performance ambiguity; inability to assess the quality and extent of partners contribution to the agreement; inability to screen, select, and choose reliable and effective partners; and a lack of information about potential partners and the regulatory and legal environment in the target country (Bucklin and Sengupta, 1993; Stump and Heidi, 1996; Woodcok *et al*., 1994). Given these conditions, firms are less likely to collaborate when internal uncertainty is high. We, therefore, propose the following:

P11. The higher the perceived internal uncertainty, the lower the propensity to collaborate in the international market entry strategy.

Conclusion and implications

We have argued that the propensity to collaborate at the entry stage is influenced by firm's understanding of their internal competencies and their perception of environmental uncertainties. Firms recognize that it is in their interest to leverage the rent earning potential of internal competencies in different country markets. However, this desire is tempered with the realization that market developments can obstruct the realization of benefits. Thus, the interface between the firm and its environment forms the central thrust of the theoretical arguments for explaining international market entry decisions.

Positioning the entry decision as the tradeoff between leveraging competencies and managing uncertainties capitalizes on the vast body of research on strategic management and market entry strategies. Two of the critical considerations that permeate the existing theoretical frameworks are the notion of leveraging internal competencies and managing environmental uncertainties. These considerations are reflected in Dunning's (1988, 1995) OLI framework, with internal competency referring to ownership advantages and environmental uncertainty covering locational factors. The tradeoff between competency and uncertainty also derives its logic from resource-based view of the firm, the transaction cost theory, the internalization theory, and the internationalization stage framework. The arguments presented in this paper are thus integrative in the sense that they derive their rationale from the existing body of literature.

We see the following areas of research as most promising. Although this paper has hypothesized relations between internal competency and environmental uncertainty and the decision to collaborate at the entry stage, future research can explore the choice of a specific mode of entry within the family of options under collaboration. For example, when firms chose to collaborate, what determines an equity-based option versus a non-equity-based option? And if an equity-based option is preferred, what determines the level of equity? Future research can also add to our understanding by focusing on measurement and assumption issues. For example, future studies need to discuss both the logic underlying the derivation of empirical measures and the measurement properties of these measures such as reliability and validity. This will allow for comparing findings across studies and deriving generalizable relations. Future studies also need to specify the assumptions under which the conceptual relations will hold.

The framework presented in this paper has several managerial implications. It takes the strategic considerations of leveraging internal competencies and managing environmental uncertainties as the building blocs of international market entry strategy. The interface it presents between the firm and its environment forms a core of the strategic management literature. In making the entry decision, managers have to ask difficult questions such as, what are their

internal competencies and what are the characteristics of these competencies; how do these competencies provide sustainable competitive advantage and how can these competencies be transferred to different country markets? Furthermore, managers have to evaluate their own perception of environmental and behavioral uncertainties. Bringing these two together will enable them to enter a country market with an understanding that will be helpful in achieving organizational objectives.

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Notes

- [a] Marketing Department, College of Business, Marquette University, Milwaukee, Wisconsin, USA,
- [b] The George Washington University, Washington, District of Columbia, USA
- Corresponding author: Syed H. Akhter can be contacted at: syed.akhter@marquette.edu

Appendix

Table 1 Theoretical foundations of the international market entry strategy

	The international firm			The international market entry strategy		
Theory	View of the international firm	Goals	Key Processes	Key decision parameters	Key assumptions	Decision criteria
Transaction costs (Williamson, 1975)	Rational decision maker, opportunistic behavior	Global efficiency	Transaction specific analysis	Asset specificity, uncertainty, frequency of transactions	Bounded rationality, competitive market	Minimize transaction costs
Internalization (Buckley and Casson, 1976; Rugman, 1980)	Hierarchical structure, bundle of resources	Capture value	Appropriation of value	Cost and benefit tradeoff	Market imperfection	Internal efficiency
Eclectic theory (Dunning, 1988)	Possession of firm-specific advantages	Exploitation of firm and local advantages	International market expansion	Ownership, location, internalization advantages	Uncertainty, market imperfection	Tradeoff between control, return, efficiency, and resource commitment
Internationalization (stage theory) (Andersen, 1993; Johanson and Valhne, 1977)	Resource-based view of the firm	Seek market opportunities	Gradual commitment to international markets	Risk, resource commitment	Experiential learning	Minimize risks and resource commitment

Figure 1 Strategic International Market Entry Choices