

# RESEARCH PROPOSAL

## PROJECT TITLE

### SUCCESS OF MARKET ENTRY STRATEGIES IN THE CEE EMERGING ECONOMIES:

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#### Brief description of the project

Subsidiaries of multinational enterprises' (MNEs) in the CEE emerging markets are set up and operate in environmental settings that are substantially different from the MNEs' home developed market economies—hence, to govern their CEE activities, MNEs are required to design and maintain complex organizational (structural) and strategic arrangements. Furthermore, the performance of foreign subsidiaries is conditional on the choice of strategic configurations, which need to be aligned with the CEE emerging economies' uncertain, complex and often volatile environmental contingencies (Ghoshal & Nohria, 1993).

In the contingency theory tradition in organization and strategy literatures, there is an abundant support for the notion that a good fit between strategy and context exerts positive effects on performance. In this research, we will address this assumption by testing whether such relationship exists between applied foreign market entry strategies in CEE emerging markets and subsequent subsidiary performance. Past research on performance of foreign subsidiaries in emerging markets mostly applied Miles and Snow's (1978) typology of prospector/analyzer orientation to tackle the issue of the environment-strategy-performance relationship (Lukas, Tan & Hult, 2001; Luo & Park, 2001). We develop a new contingency logic anchoring to internationalization strategies and define four categories of fit: *strategic fit* (i.e. the fit between entry and competitive strategies employed in the foreign market), *internal fit* (i.e. the fit between investing firm capabilities and the foreign market entry/competitive strategies chosen), *external fit* (i.e. the fit between the entry/competitive strategies chosen and the foreign environment) and overall fit. We will apply a novel method for estimating multi-dimensional fit.

Furthermore, the concept of organizational fit is treated generally in a relatively static and unidimensional manner, a manner that is incommensurate with the dynamic, unpredictable disruptive and multicontingency nature of organizational contexts of the CEE region today. We move considerably beyond approaching fit as a static concept and a unidimensional construct, and offer insights into the operationalization of dynamic fit.

#### Success of market entry strategies in the CEE emerging economies

##### Project summary

##### *Issues addressed and importance*

Our main question of investigation is: Does a complex external and internal alignment of foreign market entry and competitive strategies matter for foreign subsidiary performance in the CEE emerging

economies? Based on extant strategy research, our benchmark logic is that external and internal alignment of a specific strategy will unconditionally matter. Therefore, we will not investigate generally accepted claims such as 'Fit is positively related to performance' but use them as a point of departure. We will develop specific hypotheses that deal with various forms of fit that could be mathematically captured by a number of interactions, such as between strategy x1 and strategy x2, positively associated with subsidiary performance, or between strategy x1 and MNE capability y1, positively associated with subsidiary performance etc (see figure 1 below). Strategy fit may exist between the entry mode choice (i.e. the choice between setting up a wholly owned foreign operation or a joint venture with a local partner) and the strategic choice whether to standardize or adapt (marketing) operations in the CEE market. Why is there a need for such a strategic fit? For instance, if local adaptation is crucial for the type of product or service offered in the CEE market, and the CEE subsidiary is to be set up as a wholly owned operation, the result may be a misfit and a sub-optimal performance. Local adaptation requires a profound understanding of local consumer preferences, tastes and consumer behavior which can most efficiently be acquired via a local partner rather than firm-specific experiences in the local market which require longer time to develop internally. Hence, a partnership (or an acquisition) rather than a wholly owned operation (or a startup), coupled with a strategy for adaptation will likely result in improved subsidiary performance. An exception to this argument would be the case where the investing firm has previous business experiences in the CEE region, which would eliminate the need for a local partner and explain the need for a fit between investor firm capabilities and strategy (i.e. internal fit). Another exception to choosing a JV or an acquisition establishment mode when adaptation is required would be a environmental context that does not facilitate neither a JV not an acquisition establishments. For instance, the CEE institutional context may be very different from the MNE's home context, thus making due diligence and acquisition negotiations difficult, time consuming and rife with uncertainty. There may be an insufficient number of acquisition targets in the foreign market, or not enough prospective JV partners to consider, all of which decreasing the likelihood of a satisfactory subsidiary performance if the strategy chosen is in misfit with the external context.

#### *Intended Outcomes (Objectives)*

Our focus is on the importance of fit, in particular, the internationalization-strategy alignment with organizational capabilities and environment. The intended outcomes of the study will

1. Identify which of the proposed types of fit (alignment) matters the most for subsidiary performance in the CEE region.
2. Demonstrate to what degree the complex alignment or fit would matter for subsidiary performance.
3. Outline important pitfalls for prospective investors in CEE region: by focusing on the role of chosen market entry strategies in line with firm capabilities and external (CEE) context we hope to create a 'road map' for successful strategies in the CEE region.
4. Illustrate the benefits of following a dynamic approach to achieving fit: for achieving long-term performance effects, complex organizational alignment approach to CEE investment strategies is key, where strategy, internal, external and overall fit becomes a permanent goal for the MNE developing business in the CEE region.
5. Provide a background for future research on investment strategies in developing (emerging) economies and advance academic and practitioners' knowledge on performance issues associated with investment strategies in CEE region

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