Transcription Lesson 2: Modes of entry

Organisations have a number of decisions to make when choosing how to enter new markets. This is known as the entry mode decision.

The organisation first needs to decide whether they will choose a non-equity or equity mode of entry. The level of commitment, or degree of equity, that they invest in the new market is an important decision that will decide if they are a true MNE who uses equity modes, or a non-MNEs who relies on non-equity modes.

Think back on the international, multinational, transnational and global types of organisations. International organisations will typically use non-equity modes (like exports and contractual agreements) and are therefore not true MNEs. They are often businesses that are just starting to explore past their domestic borders. These non-equity modes tend to reflect relatively smaller commitments to overseas markets; we have already discussed these in Lesson 1.

Owning equity in local companies across borders is what makes an organisation an MNE. Equity modes of foreign entry represent varying degrees of ownership in the foreign enterprise. Low-equity modes (a lower degree of ownership) include newly established JVs and partial acquisitions. High-equity modes include the establishment of a subsidiary located in a foreign country that is entirely owned by the parent multinational (a greenfield wholly-owned subsidiary) and full acquisitions. The degree of ownership or equity control sought by the MNE together with the decision to use their own resources or to buy local resources, leads an MNE to choose one of the four FDI entry modes.

Have a look at Figure 12.2 in the text book, which relates to our figure here. An MNE who wants high control and a quick entry into the market will usually choose a full acquisition to establish their wholly owned subsidiary. Of course, this will come with some integration challenges with absorbing the previously independent company. Alternatively, the MNE might choose to establish its own subsidiary from scratch, using its own resources – also known as the Greenfield. This choice will slow down the entry into that market (remember the timing decision for entry?). Those MNEs that are happy with less control can choose between partial acquisitions and newly created joint ventures. Again, the acquisition will come with the risks of integration, but it allows the MNE to acquire existing operations and knowledge. A JV, on the other hand, has issues with coordination and the ongoing need to balance control with the partner.

In summary, the choice of entry mode will depend on the level of commitment the organization has towards internationalization, the degree of equity control they want to have over their foreign operations, and access to resources.

Before we end off, however, I want you to note that partial acquisitions, JVs and contractual agreements are all forms of strategic alliance. You cannot use the term to exclusively mean a joint venture, for example. Strategic alliances can cover equity and non-equity modes, so be sure that you clarify what type of strategic alliance you are discussing when you write about it.

Sources: Peng, MW & Meyer, KE. 2019. *International Business*. 3rd edition. Andover, United Kingdom: Cengage Learning.