

The Role of the Top Management Team in the Choice of Entry Modes – Theoretical Perspective

Sara Jiménez Burillo, Juan J. Jiménez Moreno

ABSTRACT

Objective: Launching the process of internationalization is a critical decision, so using combinations of entry modes can be beneficial to sketch an easy and feasible international process. Members of TMT might have some special characteristics to achieve planned objectives and strategies and take appropriate decisions, especially combinations. The objective of the article is to present the main themes of the literature discourse on the role of entry modes and their combinations.

Research Design & Methods: This paper discusses TMT's characteristics that influence on the combinations of entry modes. The research design used here is qualitative because it attempts to describe the importance of these characteristics in as the alternatives in internationalization process.

Findings: The results indicate the importance of considering some characteristics of TMT, and combinations of entry mode as an option to internationalize.

Implications & Recommendations: Combinations of entry mode might enhance the firms' internationalization strategies, making them more effective in the global environment. Knowing the relevant determinants of TMT will lead to more efficient strategies.

Contribution & Value Added: The originality of this work lies in studying some aspects of TMT to select combinations of entry modes which are suited in a given environment.

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INTRODUCTION

Launching the internationalization process is an essential decision that firms might have taken into account to achieve better results and firm's position relative to their competitors (Anderson & Gatignon, 1986; Agarwal & Ramaswami, 1992; Brouthers & Brouthers, 2000; Petersen & Welch, 2002). When national market's characteristics are considered (saturated market, customer migration to other countries, difficulty in obtaining certain resources etc.), firms must choose what is the best entry form to open new markets. This decision has always been taken from an isolated and static perspective, because each operation is carried out without taking into consideration some links with other operations in a target country. However, target country's changes (economic and political changes, cultural differences, etc.), no matter how important for such broader perspective, have less impact on the chosen form of the market entry. Thus, the combination of entry modes may be essential for carrying out this process, considered as a set of factors (Hill, Hwang, & Kim, 1990; Asmussen, Benito & Petersen, 2009) influencing associated risk and difficulties. In other words, choosing the one and only entry form and idle waiting for improvements aren't enough; firms must consider a dynamic view to be able to achieve more advantages and open successfully to new markets. Because of this reason, using the combinations of entry modes is beneficial to obtain an easy and feasible internationalization process, taking into account the influence of external and internal factors.

The key problem is that there is not any perfect combination for a specific situation, so is necessary to consider some aspects that affect decision-making as well as the final result. At the time, when firms decide to use internationalization strategies to open new opportunities, they should have some knowledge about target country or countries, because depending on the firms' situation, their resource commitment will be higher. It means that when companies have previous experience and more knowledge, they can consider complex strategies as they know what kind of resources and investments are required. These decisions must be studied and evaluated in depth, so company's top management team (TMT) is fundamental for taking appropriate decisions and applying proper measures in the process of internationalization. How does top management team develop these strategies? What aspects are considered? What do they rely on in making these decisions? Members of TMT might have some special characteristics, for example age, languages, experience, educational background or proactive attitudes, to achieve planned objectives and strategies. They must have qualities to facilitate the internationalization process. The objective of the article is to present the main discourse themes on the role of the entry modes and their combinations.

LITERATURE REVIEW

International Entry Modes

Entry mode's decision in the new industry, the market or the country is a vital strategic question, since it could affect the actual situation. This decision involves companies, target countries and their regulations, because they are related (McNaughton, 1999). Firms' internalization relies on resources and capabilities but also on environment (Luo, 2001). Several entry modes are chosen to acquire limited resources which companies lack. So, the main entry forms are Joint Ventures and acquisitions (López, 2008).

Changes caused by this decision may promote and enhance company's activity or, by contrary, may turn international expansion into a catastrophe. As a result, firms have to examine what are the entry modes and which of them are more suited to company's characteristics. In addition, the companies have to evaluate the future advantages and if they are appropriate for the company strategy.

Entry modes are considered to be the key decision to internalization because they allow the companies to observe their limitations and correct them if necessary (Brouthers & Hennart, 2007).

The decision upon the entry mode, considered from a static point of view, takes into account a number of factors that affect this decision (Kogut & Singh, 1988), assuming that companies would choose modes that can bring them bigger returns and profits (Brouthers, 2002). These factors are: control, risk, resource commitment and assets specificity (Hill, Hwang & Kim, 1990; Luo, 2001; Zhao, Luo & Suh, 2004; León, Villar & Pla, 2011; Pla, León & Villar, 2011) and they are so important because of their influence and pressure on internationalization process.

The common ways of internationalization are (Daszkiewicz & Wach, 2012, pp. 54-59):

- **Exporting:** This form is considered as the first step which is necessary for the internationalization and is viewed as a positive opportunity. *"It is a major mode option used by companies to achieve international market penetration"* (Welch, Benito & Petersen, 2007). Exporting is used for both goods and services and is the easiest and basic economic form which does not entail experience.
- **Licensing:** "It is a foreign operation mode that covers a wide range of activities, users and diverse roles" (Welch et al., 2007). It requires medium level of risk, commitment of resources, and control and it is not usually used in isolation, because it does not have the same integration or use other resources than other methods, such as foreign direct investment (Brookes & Roper, 2010).
- **Franchising:** Is a relationship between supplier and dealer. It is an effective way to combine the strengths, skills and needs of the franchisor and the franchisee. This form requires medium level of risk, control and/or resources commitment and allows sharing cost of expansion.
- **Alliances:** Are an option that international firms can use to benefit and share costs and risks with partners. The costs, risks and uncertainty associated with this form are relatively high.
- **Foreign direct investment (FDI):** This method is one of the most influential because it offers more possibilities than others, besides being a source of profit growth (Mudambi & Mudambi, 2002). FDI may be separate into **Joint Ventures (JV)** (which need needs to have a partner with whom share costs and control and should always be long term and the member companies remain independent) and **wholly-owned subsidiary** (which offers more control, risk, cost and returns).

Combinations of Entry Modes

The actualization of this process is carried out by choosing an entry mode. It means, the way best suited to the company characteristics; because each firm will use different entry modes depending on their activities (Morschett, Schramm-Klein & Swoboda, 2008).

Knowing why companies decide to change their internalization strategies is important (Santangelo & Meyer, 2011) because countries' conditions are different and successful companies must try to adapt the selected entry mode to these conditions.

Although traditional entry modes are relevant in this process, its static point of view causes limitations in proposing appropriate actions to develop their activities in the target countries. It is necessary to see this process as a dynamic one, because characteristics of the company, competitors, countries and environment ever change and evolve (Andersen, 1993). All these circumstances affect the choice of the best entry methods into new countries, due to the wide variety.

The choice of entry modes is a critical decision which should not be taken in isolation (Asmussen, Benito & Petersen, 2009) without taking into account their influence on other activities because they are a consequence of numerous factors such as environment, competence, restrictions, innovation, investments, etc.

Companies may face environment adversity, adapting to and taking advantages of it with combinations of entry modes. At the very same time, they may minimize disadvantages because they can use some forms of sharing resources and cost with others that allow greater control to achieve the objectives.

Diverse possibilities are necessary to understand how to combine the different modes or to create packages in order to achieve profits and survive in the market, as this is the ultimate aim of all companies, since firms have understood that they can change their entry mode by adding new forms (Benito, Petersen & Welch, 2009).

Nowadays, more companies try to use combinations of entry modes to gain better results and avoid losses and difficulties. This phenomenon is rarely mentioned in literature (Petersen & Welch, 2002; Asmussen, Benito & Petersen, 2009; Benito, Petersen & Welch, 2011; Brouthers, Brouthers & Werner, 2008), however, the possibility of combining the entry modes has amplified that opportunity to improve the scholarship in international business.

The combinations seem to be a rational reaction to the diversity of pressures and chances (Benito, Petersen & Welch, 2011) of the market which are complex and difficult to solve in isolation from other factors. These packages of entry modes are essential for adapting to new circumstances in the environment and to deal with and anticipate situations of uncertainty that happen in real life conditions, so they involve interdependence among these actions across different countries (Benito, Petersen & Welch, 2009; Hashai, Asmussen, Benito & Petersen, 2010). Such decisions influence host and origin's characteristics, and the packages might be employed in many segments or parts of the value chain (Benito, Petersen & Welch, 2009).

The combinations of entry modes allow studying the factors and characteristics which are the basis of that diversity (Welch, Benito & Petersen, 2007). The difficulty is how to identify which are the best packages in order to increase efficiency, according to the specific circumstances' companies.

Welch, Benito & Petersen (2007) identified five reasons to establish combinations. These motives are: unrelated business units; serving different customer segment; value activity specialization; bolstering commitment and control; and benchmarking local operators.

Top Management Team and Entry Modes

Although internationalization is essential, the decision on the internationalization could not be implemented without the work of the top management team (TMT). It is an important part of human resources because members of TMT are those who make decisions through a wide view of the market, making the company more innovative and competitive (Peña-Vinces & Roldán, 2012).

One of the main aspects of a company is its TMT, which is responsible for developing strategies and decision-making, enabling the company to achieve planned objectives. Characteristics of TMT is the key aspect to understand why top managers choose particular combinations of modes for internationalization. So, it is essential to study their age, education, time carrying on the business, demography, etc.

We have to consider that many times top management team is composed of a large number of members, so the diversity within the team is critical to have a wide variety of ideas, suggestions or proposals to improve the decisions made (Knight et al., 1999).

Each member of the TMT has an idea of how to deal with certain aspects such as cost, innovation, process, etc. (Knight et al., 1999), and must put them together to shape those ideas and opt for those that are more accessible and affordable for the company, and identify opportunities for further expansion (Barkema & Shvyrkov, 2007) or improve the internationalization of the company. Members of TMT must exchange and integrate necessary information for any decision-making (Buyl et al., 2010). Thus, there should be a greater coordination in the team, instead of the rivalry between TMT members.

When top management team is diverse, decision-making can be slower and more complicated than in homogeneous teams. Nevertheless, the resulting solution should lead to better outcomes and more successful actions (Nadolska & Barkema, 2013). This is because each member reveals his/her preferences and experiences, which may be different from another member and, therefore, the ultimate solution would be more original and innovative.

Previous experience of the top management team positively affects company (Nielsen & Nielsen, 2013), because they know more and have more technical resources and expertise to deal with adverse situations. When the TMT is composed of members who have different past can affect differently both the team and the company and the direction it will follow. For example, they can positively deal with the recurrent changes in the market, they can also be based on experience or past situations; but on the other hand, it may be that their proposals are more criticized or take longer to be resolved and agreed. These possible scenarios do not assure success (Cai, Quing & Yu, 2013), but it is essential to consider all the variables before taking actions.

If a member of the TMT has lived a difficult situation in a previous work, has some experience and knows how to act or what resources are needed it might be beneficial for the decision-making process. However, the characteristics of the current situation may differ in some aspects, which may seem insignificant but they are very relevant. Therefore, when planning possible solutions, companies have to consider what is really important in a new situation but somewhat based on the previous experiences.

Another way to be gaining experience and generate new ideas is through the TMT as a group, because the interaction between people increases individual and group learning.

The age of person who deals with international issues and makes decision is important. Young people are more inclined to take risky decisions because their risk aversion is lower. On the other hand, youth has innovative perspective and contribute with ideas less traditional and more original. Nevertheless, young people have less experience, so in difficult situations may not know how to act.

In a globalized world knowing some languages is essentials to do business so the communication between involved parties is easy and fluent. English is the most widely used but knowing other languages is beneficial for firms to establish international relations with companies in other countries such as Russia, China or Brazil. It is essential for the relations with developing countries because their unstable environment makes companies to be more involved in those operations.

Educational background is a significant aspect to see analysis capacity, information processing capacity, openness to change, orientation to innovation, etc. of the TMT. It means that one should know their skills and abilities to do international business. This feature provides an opportunity for team members to exchange ideas, concepts and knowledge, while they learn and gain new point of views, facilitating the interpretation of the information and putting into practice the knowledge they have (Nadolska & Barkema, 2013).

These features are vital not only for the internationalization of the company, but also to execute combinations of entry mode, because this strategy depends on the characteristics of the TMT, who will carry them out.

CONCLUSIONS

Companies must make strategic decisions since characteristics and conditions change over time and this causes choices to be more suited to such situations. When competition is aggressive and traditional structures are not enough, is necessary to take into account the possibility of using combinations of entry modes to face national and international competition.

As for further directions for researching, in the future it would be good to check and to know if characteristics of TMT influence in chosen strategies for internationalization, especially choosing combinations of entry modes. Although this decision may result in slow, costly and complicated actions, in the long term it can be very beneficial for firms, if it has been well established and valued and considered environmental circumstances.

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Authors

Sara Jiménez Burillo

Bachelor of Business Administration (University of Castilla La Mancha, Spain); Master in Strategy of the company (University of Valencia, Spain); PhD student in Strategy and Marketing of the Company (University of Castilla La Mancha, Spain).

Juan J. Jiménez Moreno

Professor of University in the Area of the Business Administration at the Faculty of Economics and Business of the University of Castilla-La Mancha (Spain). PhD in Economics and Business by the University of Castilla-La Mancha (Spain); Degree in Economics and Business with Extraordinary Prize of Degree, by the University of Murcia (Spain).

Correspondence to:

Prof. Juan J. Jiménez Moreno, PhD
University of Castilla La Mancha
Facultad de Económicas
Plaza de la Universidad, 1; 02071 Albacete, Spain
Juan.Jimenez@uclm.es