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Exploring the Staging Patterns of MNC Entry to New Markets: The Resource Leverage Approach

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ABSTRACT

This study aims at providing explanations for how MNCs (multinational companies) proceed with their manipulation of resources and competencies in the entry process to a foreign market. To an increasing extent, such processes perform as a staging process of resource leverage. This study identifies three stages, using the multiple case study incorporating grounded theory: the initial stage, the adaptive intensification stage, and the advantage persistence stage. In the initial stage, an MNC's entry decision tends to be based on the resource replication mode of resource leverage; the resource exploitation mode of resource leverage is used mainly in the adaptive intensification stage, and the resource exploration mode is used in the advantage persistence stage. This study suggests that these resource leverage modes incorporating their microfoundations can be viewed as a set of potential measurements for examining MNCs’ dynamic capabilities in the entry process to a new host market.

1. Introduction

It is commonly believed that international diversification can enable a firm to capitalize on business opportunities and diversify risks in the global market. In such a process, the dynamic capabilities view (DCV) suggests that an international firm’s diversification is built by extending its existing resources, which would be primarily meritorious [1]. Teece suggests that one critical strategic function of executives in a firm is the generation of innovations to match market signals through allocating (and reallocating) and combining (and recombining) the firm’s resources and assets [2]. Such a suggestion regarding the field of entry decision (or entry process) of international firms; however, the assumption on how their resource orchestration leads to business success is quite general. As DCV research is significantly silent in this field, contributing to a better understanding on how an international firm manipulates its resource base in the global entry process is thus considered necessary.

In this study, we argue that resource leverage is an essential approach to a multinational company’s (MNC) resource orchestration in the process of global entry. Combs et al. define resource leverage as a series of actions that aim at creating a firm’s value based on its existing resources [3], in which firms untangle knowledge, alter knowledge, and integrate knowledge with other kinds of knowledge to achieve innovation [4]. From a view of diversification, McEvily et al. stress that resource leverage as the primary approach to firms’ exploitation of existing

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competencies and resources entails the transfer of organizational knowledge or capabilities to different organizational units, new products and wider geographic markets.

In addition, resource leverage enables a firm with capabilities to adapt to new markets. For MNCs, market adaptation is an essential challenge as they have to operate in contexts that differ to their home market in terms of culture, technological applications, laws, policies, etc. Market adaptation requires firms to modify and reconfigure their resources to respond to the changes in different markets. Considering an international firm has higher capabilities in resource leverage, it would more easily fit in a foreign market, and hence have the ability to outperform its rivals.

This study aims to elaborate on how MNCs proceed with their manipulation of resources and competences in the entry process to a new geographical market. We examine the changes in how MNCs conduct resource leverage during the potentially dynamic entry process in order to adapt to a specific global market. In essence, our explanations underline organizational ambidexterity with contributions to understanding the processual patterns for the interplay of resource development and market adaptation of MNCs.

We organize the paper as follows: First, we review market entry strategies of MNCs and the DCV with a focus on resource leverage to form the theoretical base for this study. Second, regarding the research method used in this paper, we note how we collect and proceed with the data analysis. We then present the empirical results and analysis. Finally, this paper discusses the findings and implications of the study.

2. Theoretical Backgrounds

2.1 Entry Strategies of MNCs

Internationalization is perceived as an ongoing strategic process of international firms. In this process, selecting the best market entry mode is crucial because it significantly impacts a firm’s internationalization performance and determines its success. Therefore, research on market entry strategy has attracted attention in seeking to reveal the determining factors of MNCs’ entry decisions. These factors may range from tacit knowledge to home country-related factors.

In line with this stream of research, some authors suggest that a firm’s internationalization performance is simultaneously influenced by a set of internal and external changing factors, which requires considering multiple factors rather than any specific individual factor for entry mode decisions. Therefore, there may be some cases where a firm adopts an entry mode that is not an optimal selection for a specific business unit, but instead aims to maximize value for the whole corporation. Additionally, recent empirical studies have been conducted to examine the antecedents to entry mode choice in a new type of firms, known as born global firms or international new ventures, which are featured by their internationalization operation from the inception.

Several extant popular theories on entry mode choice include transaction cost theory, eclectic theory, organizational capability perspective, and network perspective. Each theory suggests different determining factors behind entry mode decisions, based on respective underlying assumptions. To be more specific, transaction cost theory focuses on cost minimization in resource transactions, eclectic theory focuses on a comprehensive consideration of multiple factors, organization capabilities on the value of a firm’s resource, and network perspective deals involving interactions between firms and their global connection.

Nevertheless, these theories of market entry are criticized as quite static views when they focus only on the initial stage of entry. As stated by Kim and Hwang, when a firm expands internationally, it may have strategic motivations that are not limited to the selection of the most efficient entry mode. New market opportunities are no doubt an important motivation for a firm’s internationalization strategy. In this theme, as the new market differs from the firm’s domestic market, changing to adapt to the host country is inevitable for the firm to succeed. Furthermore, as the business environment is changing, market adaptation requires firms to constantly reconfigure their resource base to match and create change in the business’s environment. This implies that successful market entry of MNCs in a new foreign market should be associated with stages of resource reconfiguration. Therefore, the issue of MNCs’ market entry needs to be examined under a more dynamic perspective.

In fact, a dynamic approach to MNCs’ market entry has also been suggested in some research. For example, the establishment chain perspective describes entry mode decision as a time dependent process, in which a particular stage is the outcome of some prior stages. Song indicates that an MNC’s operation in its host country contains a series of activities of competence development in which a prior stage serves as a platform for later stages. Further, Chang and Rosenzweig, Guillen, and Decker and Zhao posit that foreign direct investment (FDI) entries might be best understood as a series of sequential decisions associated with resource transfers.
among countries. In line with this, Madhok indicates that a frequent balance between exploitation and development of organizational capabilities is necessary for successful market entry of MNCs [31]. Also, some scholars view foreign market entry as an integrated process of both exploiting home-based knowledge and exploring host-country specific new knowledge [32,33,34,35,36].

Recently, Efrat et al. emphasize the role of export dynamic capabilities (i.e., adaptability, innovativeness, unpredictability, and task-flexibility) in the allocation and reconfiguration of a firm’s existing resources and competences to align with changes and opportunities in its external environment [37]. Groggaard et al. posit that resource combination capability will help MNCs to deal not only with the requirements of local responsiveness, but also the pressure of global integration in seeking to achieve cost efficiency [38]. Additionally, Panibratov and Klishevich posit that adaptability capability helps a company overcome unpredicted situations in a changing environment, innovation capability and absorptive capability help a firm to understand and become more responsive to local markets, and alliancing capability facilitates the development of technology in a firm’s initial stage of entering a new foreign market [39].

Although the issue of market entry strategy of MNCs has been approached under a dynamic aspect in some research, when stating that market entry strategy is a multi-stage process by which firms use their internal competences to deal with external business environment, it has not been clarified how MNCs manipulate their internal resources in accordance with the external environment. Based on the DCV, we consider that obtaining sustained performance in a foreign market requires MNCs’ ability to constantly leverage and transform its resources for new resource configurations that fit the local market. Therefore, in this study, we investigate the patterns of resource leverage that MNCs conduct to adapt to a new foreign market.

2.2 Dynamic Capabilities View

Dynamic capability is “the capacity of an organization to purposely create, extend, or modify its resource base” [39,40]. The word “capacity” refers to the ability to perform a task in at least a minimally acceptable manner. Thus, if an organization has a specific dynamic capability, it can technically perform a certain activity with a high, moderate or minimally satisfactory level. The phrase “purposefully create, extend, or modify” in this definition implies that dynamic capabilities relate specifically to activities that can initiate changes to a firm’s resource base in order to respond to a given context, and not apply to operational capabilities that relate to the performance of daily activities in the organization. Similarly, Teece et al. define dynamic capabilities as “the firm’s ability to integrate, build, and reconfigure internal and external competences to address rapidly changing environment” [41: 516]. Eisenhardt and Martin state that dynamic capabilities are a firm’s processes that alter the other processes in the firm to match and even create market change [40].

Dynamic capabilities are increasingly considered as a source of a firm’s competitive advantage and even sustained competitive advantage in a changing environment. However, dynamic capabilities per se are not necessarily considered an immediate determinant to a firm’s performance [40,41]. According to Helfat et al., the performance of a dynamic capability is measured by two yardsticks: technical fitness and evolutionary fitness [39]. Technical fitness indicates how effectively dynamic capability performs its function. Evolutionary fitness refers to how well dynamic capability matches market demand. Therefore, if a firm can exercise its dynamic capability in a highly technical way when there is no demand for this capability in the market, the firm will still not succeed. For this reason, market fitness can be considered as the link between dynamic capabilities and a firm’s performance [42,43]. Still, as Barreto’s discussion [44], for the DCV, how dynamic capabilities are operationalized, especially for developing the measurement of dynamic capabilities microfoundations, will be a necessary agenda for future research.

In a famous framework of dynamic capabilities designed by Teece [42], he explained the mechanism by which firm performance is created from dynamic capabilities. Accordingly, dynamic capabilities are divided into three main groups: sense, seize and transformation (or reconfiguration). Sense capability refers to a firm’s ability to scan and create (shape) new business opportunities. Seize capability relates to a firm’s ability to transform a new business opportunity that a firm has identified into a new innovation and offer it to the market. Transformation (or reconfiguration) is a firm’s ability to reconfigure its current resource base to maintain its existing advantage, as well as to generate new resource configurations in response to change, and even create change in the market. Firms need to implement sense, seize and transformation concurrently and constantly in order to ensure sustained performance.

To sum up, dynamic capabilities refer to a firm’s ability to constantly modify its resource base in order to respond to market change. The performance of a dynamic capability is measured by technical fitness and evolutionary fitness. Firms that exercise their dynamic capabilities at a higher level can offer innovations with better market fitness than their competitors, in turn, leading to competitive
advantage.

2.3 Resource Leverage

Resource leverage refers to a firm’s effort to get the most out of its resources [45,46,47]. Many scholars posit that while firms’ technological competences are fungible, they are often not fully utilized, and consequently not all value is extracted from them [48,49]. Therefore, by leveraging a firm’s existing competences, the firm will create more innovations, thereby obtaining incremental profits and avenues for growth and renewal. In addition, in the current changing environment, leveraging resources is considered the fastest and least expensive way for firms to adapt to the market.

A firm’s resources can be leveraged in many ways. A few researchers state that the actions taken to leverage strategic resources can affect the extent to which the resources affect firm performance [50]. According to Hamel and Prahalad’s typology [45], a firm can leverage its resources by concentrating, accumulating, complementing and conserving them. From the resource-based approach, leveraging by resource recombination has received much interest from researchers. Resource recombination refers to a firm’s ability to combine knowledge in different fields and transform them into a new configuration. The term resource recombination runs parallel to the term complementing resource as used by Hamel and Prahalad [45]. Kogut and Zander use the term combinative capability to signify the “intersection of the capability of the firm to exploit its knowledge and the unexplored potential of the technology” [51]. In line with this, Kodama introduced the concept of technology fusion [52] and Grant uses the term knowledge integration in regard to the generation of innovation by combining a firm’s different existing technology or knowledge [53].

Leveraging a resource includes a series of sub-processes. Galunic and Rodan postulate that leveraging resources entail a sequential process of untangling, altering, and integrating knowledge with other knowledge and then transforming them into a new innovation [54]. Sirmon et al. state that a firm can extend its existing resources or knowledge to additional applications in other market settings by leveraging the same capabilities across different products and industries to serve other customers with similar needs; using the knowledge gained by serving customer needs to sell other goods or services to that customer to serve different needs; and learning how to apply the firm’s market segment-oriented expertise developed by leveraging its capabilities to meet the expectations of additional customers [55].

The ability to leverage resources is largely considered a practical kind of dynamic capabilities. According to Galunic and Eisenhardt [56], a firm’s effort in leveraging its competences by using its capability of resource recombination is of growing importance in the quest to achieve dynamic capabilities. Resource leverage, as mentioned above, includes a series of activities in terms of changing a firm’s resources in order to respond to external market opportunities. Chatzkel [57] and Winter [58] state that leveraging processes play a critical role in matching a firm’s internal capabilities with its external environment, whereby market fitness and even competitive advantage are achieved through the creation of new idiosyncratic configurations that the market needs. Liao, in his recent research on the relationship between resource investment and firm performance conducted on small and medium enterprises in Taiwan, states that R&D leverage is an important dynamic capability that moderates such a relationship [59].

In total, resource leverage examined in this study refers to a firm’s ability to exploit more value from its current advantage, based on the combination of different resources, competencies, and knowledge. Resource leverage is comprised of a series of sub-processes. Resource leverage is a firm’s dynamic capability to the extent that resource leverage helps create change in a firm’s internal resource base in accordance with its external environment.

3. Methods

In the research, we used a qualitative multiple case study approach with constructivist grounded theory in data analysis to guide theory development (refer to Figure 1: Research Methodology Flowchart). Grounded theory is a method of research that enables researchers to construct a theory by gathering and analyzing data. Punch defines grounded theory as “a research strategy whose purpose is to generate theory from data” [60]. This method of research develops a theoretical framework in an inductive manner rather than deductive approach [61]. Grounded theory has been popular among researchers in the field of management due to its ability to build theory that is directly relevant to the interest of practitioners, to discover the social relationships and behavior of groups that have been subject to little exploration [62], and to reveal even the most complicated processes in their actual settings [63]. With this research approach, theory is developed from a real context, so it is more likely to offer insights into the nature of the research objective and hence enable researchers to infer a better explanation of the research phenomena, as well as provide a sound guide for businesses in practice [64].

In this study, a survey of eight MNCs was conducted to explore the process by which these MNCs manipulate their resource base in a new foreign market. These com-
panies come from different fields of business, including Arcadyan (the communications industry, surveyed in Taiwan), Gemtek Technology (communications, Taiwan), Neweb (online payment services, Taiwan), Vinamilk (dairy products, Vietnam), FrieslandCampina (dairy products, Vietnam), Wacoal (lingerie, Vietnam), YCH Protrade (logistics and supply chain management services, Vietnam), AstraZeneca (biopharmaceuticals, Vietnam). The diverse sample of companies is selected to provide many possibilities for comparison, thereby enabling a richer development of theory. The information on the companies can be found in the appendix of this paper.

4. Findings

From our interviews, the market entry process of these MNCs was identified to have three main stages: an initial stage when MNCs first entered a new market, followed by a stage of intensified adaptation when they became familiar with business practice in the host country, and finally the stage when the firms’ efforts were directed to maintain their performance in the local market. At each stage of entry, these MNCs had a specific way to leverage their resource base.

4.1 Resource Replication

In the initial entry stage, due to insufficient knowledge and experience in a new foreign market, the MNCs tended to begin their business with the current advantageous products and services from the home country. Therefore, the primary strategy implemented by these MNCs in the local market was a replication of their home country advantages. For example, exporting original products or services to the local markets, like Vinamilk and AstraZeneca, who exported their products to Cambodia and Vietnam, respectively. In addition, replication was also conducted by transferring the firms’ existing knowledge from the home country to the local subsidiaries, so that they were able to offer the original products and services in the host market by themselves. One example of knowledge transfer was summarized by a Wacoal manager as follows:

In the beginning, we had around twenty employees. We were sent to Japan for training. At first, we were introduced to the basic regulations in a garment factory in the head office; then we were brought to the factory to become involved in the actual work. We studied by groups; the production management group learned about production management, the mechanical group learned mechanics from tutors, etc. We practiced as if we were real workers; they involved us in these jobs as they wanted us to know that these were the jobs that needed to be done every day, and every worker had to go through such work. As a garment company, everyone must learn how to sew, even if you were a production manager and never touched sewing... Then, the experts of the parent company and we came back to the subsidiary in Vietnam to train other local em-

Figure 1. The Research Methodology Flowchart

In the survey, we conducted in-depth interviews with the participant companies’ senior managers who had a comprehensive understanding of what their companies did to expand into new foreign markets from the beginning. In the interviews, semi-structured questions were applied so that we could further explore the interviewees’ response, as well as discuss and raise issues that we might not have considered before. The interviews took place in Taiwan and Vietnam. While all these managers can speak English fluently, the interviews were conducted in the interviewees’ mother tongue so that they felt more comfortable to share their companies’ stories, and the interviewers could also obtain greater in-depth information.

We had Taiwanese and Vietnamese interviewers who were in charge of the interviews with Taiwanese and Vietnamese respondents, respectively. The interviews commonly lasted from 60 to 90 minutes, tape-recorded and then transcribed for analysis. The information of the internationalization process of these companies was compared and arranged according to their themes. In addition, we also accessed the companies’ websites to glean more information of these companies. Combined with the information from the interviews, we could better understand the strategies which these companies used to obtain performance-related information in local markets.
ployees.

Similarly, in the case of AstraZeneca, to deliver their drugs to the Vietnamese market, local employees were trained by experienced managers from AstraZeneca. As one local manager of AstraZeneca stated,

The training was focused on two main contents: information about the drugs and marketing skills. Information about the drugs was the same for every country, but for marketing skills, based on the global knowledge, we had to make necessary adjustments to match the local market. For example, when we organized conferences to introduce our drugs, we would consider who should be invited to participate in the conference, which activities should be held at the conference, where the conference should be held (in a hospital, or at a certain conference center), what evidence should be presented to convince the conference regarding the effectiveness of the drug, and which key messages should be focused to convince customers of the efficacy of the drugs.

The FrieslandCampina manager recounted the initial knowledge transfer in their company, “At that time, the local staff in the technical department was sent to the parent company for training. They were trained in production, laboratory, and technical issues. Afterwards, these employees would train the other local staff in the company”.

He added, “regarding the formula of the product, in the beginning, we used the formula from the parent company."

From the sample of our investigation, it can be seen that the type of knowledge transferred from the home country to the local market differs among different firms. For example, Wacoal focused on technological knowledge as they wanted to build factories in the host country when entering the initial stage. Thus, they trained people with technical skills to operate the machinery and equipment. For AstraZeneca, on another, due to the special nature of the pharmaceutical industry, the Company did not build production factories in the local market; instead, they focused on training local employees with marketing skills so that the local subsidiary could quickly introduce its products to the domestic market. Furthermore, in this stage of entry, besides relying on the core competences of the parent company, MNCs also needed local people to help them adapt quickly to the local market. As one manager from FrieslandCampina stated,

We did marketing and sales by ourselves, as the parent company had experience in dealing with modern distribution channels such as supermarkets, whereas in Vietnam, traditional distribution channels like traditional markets, small grocery stores were very popular.

Despite the effort to replicate the original advantage to access the host market, these MNCs were not so concerned about revenue and profit in this stage of entry. Instead, they prioritized understanding domestic consumers, accumulating experience in doing business in the local market, and quickly introducing their products and brands to the local market. This was manifested by their effort to build relationships with strategic partners in the local market such as local distributors and influential customers, or to hire local experienced employees. For example, in the case of Neweb, they made an alliance with Yahoo, a big local company in providing online payment service in the Chinese market. Through the provision of services relating to technology for Yahoo, Neweb gradually gained insights into the local business practices and increased their awareness of local customers regarding their brand, which served as a stepping stone for their later growth in China.

As one Neweb manager said,

By this chance, the process by which we engaged in the Chinese market was smooth and successful. Step by step, we gradually learned and obtained knowledge of the Chinese ecommerce market, such as the issues of online shopping services, customer behaviors towards online shopping, and the commodity supply chain. From the cooperation with Yahoo, we indeed filled our knowledge gap for the Chinese market, and we had a strong partnership and obtained high reputation in both Taiwan and China.

Vinamilk also made an alliance with a local distributor when they initially entered the Cambodia market. In this relationship, Vinamilk sold their products only to this local distributor, and then the local distributor distributed Vinamilk’s products to the local market by himself. According to one manager of Vinamilk,

...for us, initially, finding a qualified distributor to distribute our products in the Cambodian market was our goal. At that time, we had not set a goal that we would work directly with local supermarkets or other low-level distributors even though we knew that if we worked directly with them, we would earn higher profit because we could save commissions that we had to pay these intermediaries, and would be able to compete with other local suppliers.

In the alliance with the local partner, Vinamilk accepted sacrificing their profit:

Normally, the company’s expected profit for traditional export was 20%; now we accepted a profit of 5% or even 0% in the first three years, and used the remaining 15% profit to invest in the local distributor. If we wanted them to position our product at the price we wanted, we had to reduce the price and our profits must be lower, so the distributor would be willing to cooperate with us.

Through the alliance with the local partner, Vinamilk...
could understand the local customers. One Vinamilk manager stated,

The relationship between the local distributor and us was exporter and importer or seller and buyer, but our responsibility did not terminate when we delivered the products to the local distributor. Instead, we built a close relationship with this distributor by an intensive aftersales service. For example, we instructed him to transport and store the product, assisted him in dealing with the complaints from customers about the product, and we received feedback about the product taste from the local customers through this local distributor.

Learning and accumulating knowledge of the local market in this stage is a rather long-term period and challenging to MNCs. In this process, they may encounter mistakes and failures. This unfavorable experience, however, is useful for their success in the later stage. In the case of Wacoal, for example, after the factory was ready to go into operation, this company produced and sold their products to the local consumers. However, they were not successful as their product price was relatively higher than the majority of the local customer’s affordability at that time. As a result, Wacoal decided to postpone their sales in the local market, focus on manufacturing and exporting their products to the other foreign branches, like Thailand, Japan, Singapore. In 2006, Wacoal came back to their original plan when they realized promising economic signals in the Vietnamese market. They conducted intensive market research, surveys, and product tests to prepare for the sale of their products in the local market again.

4.2 Resource Exploitation: Combination with Local and Home

After the initial entry, MNCs show their aggressiveness and commitment toward seizing market opportunities in the local market.

Broadening or offering a more applicable set of portfolios of resource recombination was conducted by the firms. FrieslandCampina broadened its product portfolios by adding a nutritious milk product line to their product portfolio, including powdered milk for children from one to three years and formula milk for infants and children under twelve months. These new products had already been traded in FrieslandCampina’s home country and in other foreign branches for a long time. In Vietnam, however, it took the company around five years to prepare for the production and sales of the new product line in the local market due to the strict requirements for product quality from the local government. As stated by one FrieslandCampina manager,

*If we want to produce and sell this kind of product, we have to have a factory that satisfies the standard requirements from the local government, and employees with a habit of complying regulations on manufacturing, hygiene and food safety; we need to have the ISO and HCCP certificate. If we pass these requirements, we are allowed to produce this type of product.*

Learning from the experience of working with customers was the way YCH successfully implemented the expansion of its market share. One manager from YCH stated,

The market was divided into many segments, including customers who did not know anything about logistics; they often came to us for advice. The second type was customers who also had employees with knowledge about logistics processes but their knowledge was at a basic level, not so excellent, and we called them the average customer. The third type of customers was companies such as Nike, Adidas, and Unilever; these customers set the requirements higher than the average standard in the market. When serving these customers, we would learn from them and apply the knowledge we learned to the average customers or customers without knowledge of this field.

Big customers have very strict requirements. And from the experience of serving them, we showed the results to our new customers, and they were very impressed with our service.

In this way, YCH has been able to expand its products portfolios from handling simple goods to goods that YCH had never handled before, like alcohol and even more complicated goods like pharmaceuticals and chemicals. They can also handle shipments exported to countries with complex import customs regulations like the United States. As one YCH manager stated,

*For the experience in handling wine, it was the customers who taught us; we took every step to adapt to their requirements. For example, wine storage must not be too hot or too cold, there must be a cool area, and customs stamps must be affixed to wine bottles before the wine is sold to the market. Compared to pharmaceuticals and chemicals, alcohol is not too difficult to handle, except it is fragile.*

The YCH manager added,

*When we served Target, an American company, they strictly required us to comply with the anti-terrorism standards of American customs. Therefore, all of our steps in handling their goods must comply with these standards. Consequently, we gained experience in handling goods that were exported to America, which is the strength of our service when competing with the other competitors in the market, and we could use this knowledge to serve other customers who also want to export goods to America.*
Although customers are different, they have one thing in common: they want to export goods to America.

Customization of products to the local context was another way for MNCs to enhance their performance in the local market. This strategy is emphasized by the firms in the food and garment industry. As one Vinamilk manager stated:

*In the dairy industry, the formula for milk products, which is R&D, is crucial. Therefore, it is necessary to have dairy products to suit the tastes of the local consumers. The parent company's R&D team can only share milk formulas, but to adapt these formulas to the local market, local R&D teams are needed.*

In addition, when naming its joint venture company, Vinamilk chose the name Angkormilk, which appears on all the products of the company sold in the Cambodian market. For Cambodians, Angkor is a national symbol. Therefore, Vinamilk's efforts to localize the products to make them more familiar to the local consumers.

FrieslandCampina also shared their experience on customization of the product to the local context,

*After four to five years, we had our own laboratory and R&D team. The R&D department developed a formula specifically for the Vietnamese market. Based on the formula from the parent company, we adjusted the formula according to the Vietnamese nutrition regulations, so there was a slight change in the taste of milk in the Vietnamese market compared to the home market.*

Similarly, Wacoal also customized their products to the local context, as one Wacoal manager stated,

*At that time, Vietnamese customers' spending power was more limited than in other markets. We had to think about products that were affordable for the Vietnamese consumers. We had to calculate how to lower the cost of products while maintaining the quality standards of the corporation. If the price of the product was too low, it would affect the reputation of the Company, but if using too ordinary materials to produce the product, it would make the product become normal, while the customers that we targeted were the ones from the high medium to the high-end segment market.*

Customization of the product required MNCs to spend much time, money and effort. One Wacoal manager stated,

*When we conducted surveys to understand the local consumers' tastes about the product, we understood them to a certain degree: then we chose the products we already sold in other markets, for example, in Singapore, Japan ...; we had surveyed these markets, and then re-surveyed... to produce the products that matched the Vietnamese market. After two years, we understood the tastes of the Vietnamese consumers.*

Similarly, to Vinamilk,

*...to develop a final milk formula for the Cambodia market, we had to conduct many trial tests with consumers, collected feedback from customers;...as we are manufacturers not scientists, we had to collaborate with nutrition centers in Europe, like in Denmark.*

In addition, Vinamilk factory’s initial ambition was to expand to international markets, so the scale and capacity was large, which enabled them to obtain economies of scale; however, when the firm customized its product to the local taste of the Cambodian market, the Company had to produce a small number of products as it took a long time for the local customers to widely accept them. Therefore, the company could not optimize the capacity of the facilities and had to accept the situation of under-capacity, which was “a kind of cost of investment” (Vinamilk).

In order to serve the purpose of increasing sales and market share in the local market, the MNCs paid great attention to building and maintaining a close relationship with local partners. One manager of FrieslandCampina told about the process in which they cooperated with their suppliers of raw milk.

*We built a close relationship with them directly, without intermediaries. We guided them to practice according to standards for the agricultural sector. We signed sales contracts with them, usually for 3 to 4 years, in which we committed to buy their output in the whole period. We not only paid for the milk, but we also cared about if this was a satisfactory payment which they could afford to live on and also have money to save.*

One Vinamilk manager shared their story about handling the relationship with local distributors:

*When our products were widely accepted in the Cambodian market, many other experienced local distributors asked to cooperate with us. To make the final decision that Vinamilk would continue to cooperate with the existing local distributor, we had to discuss together many times; we had to consider many issues, including revenue, profits, opportunities, and ethics. We went even further, while we maintained an exclusive distribution relationship with the original local distributor, we could still access the new channels of distribution of the other parties which had advantages that our existing exclusive distributor’s channels did not have. We did that by persuading these parties to buy our products from our existing local distributor because buying directly from us or from him, the price was the same. As such, we had to lower the selling price for the existing local distributor. We accepted this because we believed that the market share would increase. So, in this case we created a win - win result for all the parties.*
Reconfiguration of the organizational structure to get closer to the market was an important strategy of firms in this stage. As a Vinamilk manager stated,

When our products were widely known and accepted by the local customers, we found that the current business model had disadvantages; for example, there were many costs incurred, such as logistics cost, the cost of transporting the product to the distributor’s premise, and then from the distributor’s place to all other places in Cambodia, in addition to the very long time when the product is produced in Vietnam till it was available on shelves in Cambodia. Consequently, Vinamilk changed from the export model to production and trading in the local country. We built a production factory in the local country, invested in modern equipment and machinery for the factory, and established a joint venture with our original local partner in which the capital contribution ratio of Vinamilk is 51% and the local partner is 49%.

4.3 Resource Exploration for In-depth Local Adaptation

After a period of rapid growth based on the firms’ efforts to adapt their existing core competence to the local market, the MNCs tended to focus on sustainable development in the local market by quickly predicting and sensing changes in the market and properly adjusting their resource base to respond to these changes.

The companies have shifted their investments into areas they have never experienced before. In the case of Gemtek who expanded to the Chinese market, when the wireless technology industry matured in China, …

We (Gemtek) changed from providing wireless service to internet solutions for their customers by reorganizing their R&D team, recruiting more local technicians and cooperating with the other local internet providers. All these activities were aimed to help us learn the new technology quickly to catch the new opportunities in the local market.

Likewise, Arcadyan shared their experience in reacting to changes in the Chinese market when the demand for the application of fiber–optic telecommunications, including fiber to the home (FTTH) and fiber to the buildings (FTTB), increased in China, especially in the cities and coastal areas due to a booming economy and rapid growth in the population. In response to this trend, Arcadyan collaborated with one of the major providers of networking and telecommunications equipment in China to learn fiber–optic technology.

I knew that it was the best opportunity by which Arcadyan could approach fiber-optical telecommunications technology and develop FTTH and FTTB applications; we had to learn fiber-optical technology and transform it into our knowledge base so that we could open the gate of the Chinese market through local distributors.

AstraZeneca has invested heavily in research to prepare for the future obtainment of business opportunities in the local market.

The Vietnamese market has undergone favorable changes in terms of policies, and the local government has committed to help patients through the national health insurance program. Based on an optimistic prediction about the growth of the economy, and the increasing spending on health of the local people, we had a lot of expectations concerning this market of nearly one hundred million people. From 2013 to 2019, AstraZeneca invested approximately US$ 37 million to support the implementation of clinical trial studies in Vietnam through a network of more than 130 clinical trial research units throughout the country. The data collected from these research programs will support the development of drugs that better meet the needs of the patients in the country.

YCH flexibly satisfied their customers’ demand by providing new service, which helped them maintain a close and stable relation with their customers.

In the field of goods delivery, previously, our customers wanted B2B but now they require us to expand to B2C service. The revenue from this segment was not good, but we still did it to keep our customers. For example, in the case of Amor, one of our big customers in the cosmetics field, Amor’s customers previously bought its products in large shopping malls like Vincom, but now they could buy online. As such, Amor wanted us to provide it via B2C service. If YCH could not do it, other companies would. If a competitor successfully offered a small segment, they might take the other segments, such as warehouse service. Therefore, as the distribution channel in the market is changing, we have to follow our customers to adapt to their needs.

Response to unexpected events was another important issue in the companies’ interest. FrieslandCampina shared their experience when a campaign calling for Vietnamese people to use Vietnamese goods in the local market.

The campaign caused disadvantages for us as well as other MNCs in the local market. In response to this situation, we tried to make the Vietnamese customers understand that FrieslandCampina was an essential part in their life, no matter what our country of origin.

In another situation, FrieslandCampina manager stated,

When the Vietnamese customers were worried that the milk might be contaminated with melamine, they doubted the ingredients that were added to the raw milk powder because they thought that they could not know exactly...
what was added, and when they knew, it was too late as their children had drunk it or died. So, they strongly demanded one hundred percent fresh milk, which was pure milk, with no substance added. Pure milk was a commodity, so the price would be very cheap, but we wanted premium price which required a respective value, so we had to add value. And we did this in a cautious way. Besides, we regularly run the message “from grass to glass” in our advertising programs to emphasize the quality of our milk.

To sustain the performance and to further grow, changing the business model was an important issue. One Vinamilk manager stated,

Previously, our partners completely decided the marketing and distribution of the products and gradually there was conflict of interest, for example, which channel the product should be sold to, and what the discount rate should be. It is impossible for a joint venture to exist successfully for a long term because conflicts of interest will always exist. Therefore, we gradually acquired the remaining shares in the company and took over the whole company.

Similarly, in the case of AstraZeneca, after twenty-five years in Vietnam, from a representative office, AstraZeneca was granted a certificate of eligibility for the pharmaceutical business, and licensed to export and import drugs in Vietnam.

5. Towards the Processual Staging Perspective of MNC Entry

Our findings revealed that the market entry process of our participant MNCs has three main stages, with respect to resource leverage. In the initial stage, due to a lack of business experience in the entry target market, the strategic tendency of these international companies is to enter the host country by replicating their home-based advantages. When their knowledge of the host market is enhanced, they will intensively leverage their existing resource base for a better fit in the host market. In this stage, which is termed the adaptive intensification stage, the resource leverage is performed in an exploratory manner and includes a resource and knowledge recombination, reconfiguration, redeployment, or any combination of these resource leverages. In the following stage, which is called the advantage persistence stage, MNCs have the intention to sustain their economic fruit that is derived from the adaptive intensification stage. They are oriented towards creating blue-ocean opportunities, or even leading the market by resource leverage, which is primarily conducted by using an exploratory approach.

With this essential staging pattern of the MNCs’ entry process, this study proposes the following:

Proposition 1: The MNCs’ entry process to a foreign market is shaped in a staging cycle, according to its resource leverage, which includes, in sequence, the initial stage, the adaptive intensification stage, and the advantage persistence stage. Each stage corresponds to a primary resource leverage mode, by which MNCs make decisions for their entry strategies in the entry process. These include the following: (a) the initial stage, with resource replication; (b) the adaptive intensification stage, with resource exploitation; and (c) the advantage persistence stage, with resource exploration.

5.1 Initial Entry Stage: Resource Replication

In the initial stage of the MNC entry process, resource replication is the main strategy. In the investigations of this study, resource replication was generally done by MNCs, through exporting the existing products or services to the host market, or through transferring their existing knowledge and competencies to the local subsidiaries in the host market, such as technological knowledge, operational know-how, and marketing skills that are specialized for their home-based goods or services.

In addition, our observation of the initial entry process of MNCs revealed that learning plays a fundamental role in helping them to adapt to a new host market. They learn from their strategic partners, who may be the local distributors, local partners, local supply chains, or even local employees. While MNCs are willing to accept mistakes and financial losses, the learning process represents a series of hit-and-miss actions that are teeming with unfavorable experiences. In the present findings, we have identified the intention of MNCs to increase their learning effectiveness and efficiency in the initial adaptation process to a local market. As Neweb and Vinamilk did, they built close cooperation ties with their local partners or distributors. In this case, an alliance was a general form of such a relationship.

According to the present findings on the resource leverage of MNCs’ in the initial stage of the entry process, we propose the following:

Proposition 2: Resource replication is typically performed as an extending instance of the parent-based advantages of MNCs in the initial entry stage. It is not merely exporting the existing goods and services, but it is about resource replication that is implemented as a learning mechanism, in order to adapt well to the host country’s market in the initial stage of the entry process. In this mechanism, MNCs transfer the necessary knowledge and competencies to the subsidiaries for the replication of the existing advantages; they also absorb market knowledge
from outside the firm, especially from their strategic partners.

5.2 Adaptive Intensification Stage: Resource Exploitation

Relative to the initial entry, the present findings showed that the participating MNCs of this study demonstrated a much stronger aggressiveness and commitment toward resource leverage in the host country’s market in the adaptive intensification stage. Because they were becoming familiar with the host market, they were strongly motivated to speed up their adaptation process to the local environment. They deliberately engaged in the local distribution system, built or reformed the supplier network, and, if possible, made necessary changes in doing business in the local market. Through these activities, they could effectively and efficiently accumulate useful information and knowledge, which could be used to serve as the foundation for reconfiguring and transforming their resources and competencies, and for recalibrating the strategic vision and goals of their local operations.

As discussed in Proposition 1, in this stage, MNCs’ resource leverage is conducted at an intensive level and tends to be the pattern of resource exploitation. Through integrating the parent-based advantages and the knowledge gained from the local market, MNCs broaden and diversify their product (or service) portfolios, which in turn enable MNCs to access much broader market segments in the host country. On the other hand, MNCs have great intentions of enhancing their capacity to access the market, by gaining market knowledge from their customers (i.e., learning from the market and paying efforts on customization), by building a much closer and hypervisible relationship with their strategic partners, especially on the market side (i.e., joint ventures), and by proceeding with the organizational change that benefits the market operations.

With these findings in the adaptive intensification stage of the MNC entry process, we propose the following:

Proposition 3: Resource exploitation is generally conducted as the creation of multiple instances by the integration of the existing advantages of MNCs and the new knowledge and competencies that they gain from the local market. The resource exploitation mechanism can help MNCs to expand by offering portfolios and by diversifying their market segments. Therefore, MNCs have a high likelihood of possessing a better capability of accessing the market and enhancing their reconfiguration and transformation capability for their resource base. In addition to their adaptive capabilities, such the result potentially enables MNCs to specifically recalibrate their strategic vision and goals in the local market.

5.3 Advantage Persistence Stage: Resource Exploration

The present findings show that in the advantage persistence stage, MNCs tend to conduct resource leverage in an exploratory manner, for the strategic purpose of sustaining their advantage. This is primarily because MNCs have accumulated a great deal of experience in, and knowledge about, the operation in the host country’s market. Instead of relying on the parent-based advantages, they have great intentions of taking action or undertaking new research initiatives (i.e., those for R&D, production, or marketing), for better local engagement, or even creating changes that potentially enable them to take the lead in the host market. Therefore, the resource leverage manner of MNCs tends to be much more diverse and intensified, according to the market signals that are scanned and identified for potential opportunities.

During this stage, in addition to scanning the host market signals for potential market opportunities, MNCs make an effort to seize these opportunities by not only exploiting the existing advantages, but also by exploring the local resources (knowledge and competencies) that are specific to the host conditions. As can be seen in the participating MNCs of this study, such the efforts or actions proceed from new investments, especially in unfamiliar areas, such as new market segments, technologies, and key component access. Furthermore, the participating MNCs also demonstrated their capacity to advance by inflexibly and quickly responding to unexpected events in the host environment. The change of the business model is a critical issue in such a development.

Proposition 4: Resource exploration is conducted to create multiple instances by extending the advantages of MNCs, which are developed specifically for the host country’s market and by using local resources. With the strategic purpose of sustaining the advantage, the resource exploration mechanism can help MNCs build the capacity to timely and flexibly engage in potential future opportunities in the local market. Thus, MNCs have a high likelihood of possessing a better capability of seizing local opportunities, and hence sustaining a competitive advantage in the host country’s market.

6. Discussions and Conclusions

The findings of this study contribute to research by suggesting that the processes the market entry of MNCs are dynamic and staged with resource leverage. Such a staging pattern of market entry is aligned with some previous studies, such as Chang and Rosenzweig [29], Guillen [29] and Decker and Zhao [30] on FDI research, and Kogut
and Zander [51] and Madhok [31] on the market penetration of MNCs, with the focus on a combination of knowledge between the home-based and local markets. When their experience and knowledge of the local market increases, the business strategy of MNCs will also be developed, and it will more likely to adapt to the host market.

The analyzed cases in this study revealed that there were three main activities that are used by international firms to leverage their resource base in a local market, namely, resource replication, resource exploitation, and resource exploration. Resource replication is mostly used in the initial stage of entry, when the firms wanted to deploy their home-based advantage to serve the local market. Resource exploitation is intensively used when the firms desire to significantly increase their market share and profits in the given context. Resource exploration is deployed when MNCs wanted to carry out innovations that seek to deal with potential changes in the local market. By performing such resource leverage, MNCs expand their existing advantages to additional applications, in different contexts.

The findings of this study contribute to the DCV. This study suggests that resource replication, exploitation, and exploration are considered to be the yardsticks by which to examine the dynamic capabilities of MNC’s in the entry process. This study thus responds to Barreto’s call for developing the measurement of dynamic capabilities [44]. In addition, these findings explain the potential pattern for the interplay of resource development and the market adaptation of MNCs. Thus, this study provides significant evidence to reinforce the concept of organizational ambidexterity [65,66,67]. Through the exploration into the behaviors of MNCs in resource leverage, our research also makes a substantial contribution, not only by integrating the DCV with international business management, but also by enhancing a dynamic view of international business management.

In addition, the analyzed cases in this study revealed that the success of MNCs stemmed from the provision of product offerings for market acceptance. To realize this expected outcome, all the participating firms tried hard to reconfigure their existing resources and competencies in the given contexts, despite their parent advantages being superior to those of the host market. As Danneels posits [48], it is not sufficient for a technology to have many applications; instead, these applications need to serve markets. Teece argues that a firm’s innovation is easily constrained by its existing knowledge [1]. Even though they possess a high technical capability, firms may fail when there is no market demand for that capability [39]. Liao and Rice conclude that innovations are vital to a firm’s competitive advantage; only insofar can these innovations lead to such expected outcome when they are associated with market acceptance [42].

The emphasis on the issue of market acceptance in this study also contributes to addressing the criticism of the DCV that it lacks a clear explanation of the relationship between a firm’s dynamic capability and its performance [68]. Our investigation into the participating companies revealed that if a firm can exercise its resource leverage in accordance with the market trends, it can outperform its competitors. That is, firms with a higher level of dynamic capabilities can timeously provide superior or proper offerings to match the changing market context and, hence, achieve an improved performance. Several studies underline that different firms may have different levels of dynamic capabilities [39, 44], and that the performance effects depend on whether firms use their dynamic capabilities “sooner” or “more astutely” than their competitors [40].

In the entry process of MNCs, strengthening market penetration requires an MNC to conduct various types of resource leverage concurrently. It depends on which entry stage the MNC is in, as well as what its market orientation and ambitions are for market opportunities. The allocation of generic assets (i.e., money and employees) and the reconfiguration of other resources (i.e., specific technologies, knowledge or market channel arrangements) need to be done timeously and appropriately to ensure harmony, according to the firm’s process, in terms of resource leverage. Afterwards, the transformation of resources will be conducted to develop specific, or even distinct, resources and competencies. These may include specific products, technologies, or skills in distribution. Learning (including organizational and individual learning) plays a crucial role in this process. From the present findings, therefore, this study reveals and suggests the essential role of resource allocation, reconfiguration, transformation, and learning in an international firm’s resource leverage in the entry process. As Barreto admits, any typological dimension of dynamic capabilities might have its own constructs, which may overlap other dimensions; and such complexities make the operationalization of dynamic capabilities difficult [44]. Our approach of resource leverage potentially provides a step forward for such issues, and it simultaneously provides an insight into how MNCs orchestrate their resources, in order to adapt to a new market.

Despite the contributions of this study, there is still a limitation in terms of the data collection. Using the cross-sectional approach may prevent us from realizing more detailed and relevant information of the entry strategy of companies. In this study, we posit that the entry of MNCs into a new market goes through various stages.
Therefore, a longitudinal investigation would be more appropriate. In this method, the interviewees would not have to recall the events that happened a long time ago, instead of recalling more recent events. As a result, the information provided might be more comprehensive.

In conclusion, the entry of MNCs into a foreign market is, to an increasing extent, a staging process of resource leverage. Three stages are identified in this study, including the initial stage, the adaptive intensification stage, and the advantage persistence stage. Each stage corresponds to a primary resource leverage strategy. In the initial stage, an MNC’s entry decision tends to be based on the resource replication mode of resource leverage; the resource exploitation mode of resource leverage is used mostly in the adaptive intensification stage, and the resource exploitation mode is used in the advantage persistence stage. As this study suggests, these resource leverage modes incorporating their microfoundations can be viewed as a set of potential measurements for examining the dynamic capabilities of MNCs in the entry process to a new host market.

References

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Appendix – Introduction to the Participant MNCs

Arcadyan Company

Arcadyan Technology Corporation is a Taiwan-based company established in 2003, and headquartered in the Hsinchu Science Park. The Company is principally engaged in the research, development, manufacture and sales of wireless local area network (LAN) products and broadband wireless gateways. Arcadyan products are sold worldwide. Arcadyan has R&D centers and technical support centers in regions such as Taiwan, China and the US. They also have sales offices in Europe and the Americas. Arcadyan expanded to the Chinese market in 2008.

Gemtek Technology Corporation

Established in 1988, Gemtek Technology Co., Ltd. is one of Taiwan’s leading companies in the Wireless Communications Technologies Industry. Gemtek’s headquarters is in Hsinchu, Taiwan. Over the years, Gemtek has transformed itself into a top-notch Original Design Manufacturer (ODM) for total solution providers. Gemtek is one of the few manufacturers in Taiwan that offer key technologies for Wireless Area Network and Broadband Network products. Gemtek has further expanded its global production and marketing offices in greater China (Kunshan, Changshu), Vietnam, the U.S., Japan, and many European countries. Gemtek expanded into the Chinese market in 2002.

Neweb Company

Neweb Technologies Co., Ltd. was founded in 2001; it is a major provider of online payment service in Taiwan.
Neweb provides payment services to almost all major EC sites, including music distribution sites and recruiting sites. With over 4,000 stores and experienced management, Neweb, in addition to the provision of payment services, develops payment solution provisions for banks in Taiwan, assists with cross-border transaction for Chinese consumers, etc. Neweb has more than 2,000 business partners at home and abroad, including Citibank Taiwan Co. Ltd., Chungwa Telecom Co. Ltd. and Yahoo Inc., which helps bring about the cross-strait cooperative venture. Neweb is the very first Taiwanese company to provide third-party payment platforms in Asian countries. Gemtek expanded into the Chinese market in 2004.

**Vinamilk Company**

Vietnam Dairy Products Joint Stock Company, also known as Vinamilk, is a company producing and trading milk and milk products as well as related machinery and equipment in Vietnam. Vinamilk is currently the leading enterprise in the dairy processing industry in Vietnam, occupying around 50% market share of all kinds of milk in Vietnam. In addition to strong domestic distribution with a network of more than 220,000 sales points covering 63 provinces and cities, Vinamilk products are also exported to 43 countries around the world, such as the US, France, Canada, Poland, Germany and Japan. In the Middle East, Southeast Asia, etc. After more than 40 years of satisfying consumers, till now Vinamilk has built 14 production plants, 2 logistics factories, 3 branches of sales office, a factory in Cambodia (Angkormilk) and a representative office in Thailand. Vinamilk expanded into the Cambodia market in 2007.

**FrieslandCampina Vietnam**

FrieslandCampina Vietnam is a joint venture company established in 1995 in Vietnam between Import and Export Company of Binh Duong Province (Protrade), Vietnam and Royal FrieslandCampina, the leading dairy group in the Netherlands with 140 years of experience in global markets, in which the Dutch partner holds 70% of the shares. The Company specializes in manufacturing and supplying milk and dairy products. FrieslandCampina Vietnam is one of the leading brands in the dairy industry in Vietnam. The company has a network of more than 2,400 farmers who have signed purchasing contracts, providing about 170 tons of quality milk per day for the Company. The Company has been present in Vietnam since 1995.

**Wacoal Company**

Wacoal Corporation was established in Nakagyo District (Kyoto, Japan) more than 50 years ago. With a mission to help women show off their beauty, Wacoal Group has quickly grown and become the leading company in manufacturing lingerie in Japan. For more than fifty years, Wacoal Group has expanded to global markets by establishing branches and subsidiaries everywhere, including Asia (Taiwan, Hong Kong, China, etc.), Southeast Asia (Vietnam, Singapore, Malaysia, etc.), Europe (France, Germany, Italy, etc. and North America (USA, Canada). Since April 1998, Wacoal Vietnam Co., Ltd. with 100% capital from Wacoal Japan has been established at 110 Amata, Amata Industrial Zone, Bien Hoa, Dong Nai, Vietnam. Wacoal's factory in Vietnam is considered to be the largest Wacoal factory worldwide.

**YCH Protrade Company**

YCH is one of the largest companies in Singapore that provides logistics and supply chain management services, and also the leading regional supply chain management partner to many of the world’s leading brands across Asia Pacific. This Company has expanded to eleven countries in the Asia Pacific area. In Vietnam, the YCH Group established a joint-venture with Protrade Corporation (Vietnam) in 2009. Investment in Vietnam is part of YCH's overall plan to establish a strategic network of logistics centers across the Asia Pacific region; its main objective is to maintain the development of cooperative relationships with YCH customers.

**AstraZeneca Company**

AstraZeneca is a multinational company, specializing in providing biopharmaceuticals for cancer, cardiovascular, kidney-metabolism and respiratory treatments. The Company operates in more than one hundred countries with headquarters in England and Sweden. AstraZeneca set up its representative office in Vietnam in 1994. In 2019, AstraZeneca Vietnam was granted a certificate of eligibility for pharmacy business by the Ministry of Health of Vietnam, and was allowed to conduct drug export and import activities in Vietnam.