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RESEARCH NOTES AND COMMENTARIES

MANAGING KNOWLEDGE IN FOREIGN ENTRY STRATEGIES: A RESOURCE-BASED ANALYSIS

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International strategies vary in their potential to exploit and augment a firm's resources, especially its knowledge base. Resource-based analysis suggests clustering the diverse entry modes in terms of their exploitation and augmentation characteristics. We thus introduce a new categorization of entry modes based on their potential to augment the resources of an entrant. We then explore the antecedents of these modes, and advance testable propositions delimiting for which firms and in which circumstances each mode maximizes long-term value creation. Finally, we outline how our resource-based framework complements transaction-cost-based frameworks.

INTRODUCTION

Both the exploitation and augmentation of knowledge are core to the international strategy of many multinational enterprises (MNEs); the former process uses existing knowledge while the latter helps enhance existing knowledge (Luo, 2002; Foss and Pedersen, 2004). This study offers a framework grounded in the resource-based view (RBV) of the firm to analyze foreign entry strategies based on these core strategic considerations of exploitation and augmentation of knowledge and other resources. This approach leads us to propose a new classification of entry modes that complements existing ones that focus on transaction costs reduction (Anderson and Gatignon, 1986; Hennart and Park, 1993; Buckley and Casson 1998).

The RBV provides a tool to analyze how firms' resource endowments, in particular knowledge, generate competitive advantages (Barney, 1991) and drive corporate growth (Teece, Pisano, and Shuen, 1997; Meyer, 2006). We use the RBV to analyze how different resource endowments lead firms to pursue alternative strategies to attain competitive advantages in foreign locations and grow international operations. Earlier applications of RBV focus on the choice between acquisitions and greenfield entry (Barkema and Vermeulen, 1998; Anand and Delios, 2002). Yet, few have conceptualized international entry modes from this

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perspective, beyond distinguishing acquisition and greenfield entry (Malhotra, 2003). We cluster entry modes by knowledge management implications, and present a framework analyzing foreign entry strategies.

Our new theoretical model explicitly addresses the needs of knowledge-intensive (K-I) firms, that is, firms adept at creating, understanding, articulating, and transferring knowledge (Grant, 1996; Hitt *et al*., 2006). Knowledge is the main basis for competitive advantages in many technology-oriented sectors, and is thus a central motive for internationalization (Buckley and Casson, 1996; Martin and Salomon, 2003) and a pivotal element in international strategy design (Grant, 1996). These strategies may become models for future organizations in any industry because of the growing importance of knowledge as a foundation of competitive advantage (Teece, 2003). Firms may augment knowledge through international operations directly by *accessing* resources, and indirectly through the impact on *learning* processes of the parent company.

We analyze how firms' foreign operations contribute to processes of value creation by knowledge exploitation and augmentation. Our theoretical analysis starts from the notion that choice of entry mode is driven not by cost minimization, but by the aim to maximize the value created by the transaction (Zajac and Olsen, 1993). Thus, our central question is: for which firms and under what circumstances is a particular entry mode the most value-creating choice in the long run? This potential for value creation by foreign entry is largely determined by the characteristics of investors' resources, notably their geographic fungibility or location specificity (Anand and Delios, 2002). This RBV-based approach complements transaction cost economics- (TCE) based analysis that differentiates entry modes by degree of control and focuses on cost minimization.

Resource-based perspectives on entry modes

The RBV is particularly suitable for explaining international entry strategies because its dynamic foundations provide a basis to analyze the dynamics of firm growth (Penrose, 1995), in particular the direction and mode of international growth (Mahoney and Pandian, 1992; Meyer, 2006). RBV-related approaches have been applied to analyze entry modes (Table 1), focusing on 'resource utilization costs' (Chatterjee, 1990), transfers of tacit knowledge (Kogut and Zander, 1993), the potential for erosion in the value of firms' know-how (Madhok, 1997), organizational learning (Barkema and Vermeulen, 1998), and local firms' resource endowments (Anand and Delios, 2002).

This resource-based analysis focuses on the exploitation of existing assets and the augmentation of resources to create new resources, thus establishing a link between firms' resource endowments and their likely path of international growth (Peng, 2001; Luo, 2002; Meyer, 2006). In a foreign entry context, *exploitation* involves applying existing knowledge by transferring and exploiting firm-specific advantages in foreign operations. While TCE focuses on costs of transferring resources (Anderson and Gatignon, 1986; Buckley and Casson, 1996), RBV focuses on potential benefits created by resources transferred through alternative modes. Key resources are often knowledge that is tacit (Kogut and Zander, 1993) and embedded in individual professionals (Teece, 2003). The transfer of such knowledge requires direct interactions between individuals, and is therefore more likely to create value if transferred internally (Kogut and Zander, 1993; Martin and Salomon, 2003).

Beyond exploitation of existing resources, foreign entry is a means to *augment* a firm's resource base by (internal) *exploration* of existing knowledge through organizational learning, and (external) access to complementary knowledge. Specifically, foreign entry by acquisition or joint venture (JV) provides access to complementary resources (Anand and Delios 1997; Meyer *et al*., 2009). Moreover, foreign entry facilitates resource augmentation by organizational learning and the creation of new knowledge in the investing firm resulting from its combinative capability (Kogut and Zander, 1996), and by interacting with organizations holding complementary knowledge, notably acquisitions and JVs. Thus, when new knowledge development is more important, firms more likely choose collaborative entry modes (Madhok, 1997).

The nature of firms' existing resources determines whether they need to engage in such resource augmentation when investing abroad (Luo, 2002; Chen, 2008). If core competences are geographically fungible, foreign investors may attain competitive advantages in new locations with few additional local resources,

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Table 1. Resource-based studies on entry strategies: key contributions

Authors	What they call their theory	Key concepts and line of argument	Choice set	Hypotheses	Empirical Test	Empirical Results
Chatterjee 1990	Integration of resource utilization costs, resource-based theory, capital-market imperfections	'*Resource utilization costs*' vary for different modes	Direct entry and acquisition	H1: If entered industry related to main business of entrant, direct entry more likely than acquisition H2: If entrant has internal funds or low leverage and relatively low stock price, direct entry more likely than acquisition H3: If entrant has relatively high stock price and no access to internal funds or low leverage, acquisitive entry is more likely than direct entry H4: If concentration ratio of entered industry is high, acquisitive entry is more probable than direct entry H5: Growth rate of entered industry should not influence mode of entry	144 diversification moves by 47 Fortune 500 corporations (binomial logit)	H1 to H4 supported, H5: not supported.
Kogut and Zander 1992	'*Evolutionary theory of the MNE*'	New learning results from combinative capability of firms.	Make or buy	1. 'Firms make those components that require a production knowledge similar to their current organizing principles and information. 2. The purchasing of technologies is carried out by the market when suppliers have superior knowledge which is complex and difficult to codify; by licensing when the transferred knowledge is close to current practice. 3. Firms develop internally projects that build related capabilities leading to platforms into new markets or rely on joint ventures (or acquisitions) when the capabilities are distantly related. 4. Immediate survival pressures encourage firms towards a policy of buying.' (Kogut and Zander, 1992: 395)	Theory building paper, no empirical test	

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Table 1. (*Continued*)

Authors	What they call their theory	Key concepts and line of argument	Choice set	Hypotheses	Empirical Test	Empirical Results
Kogut and Zander 1993	'*Evolutionary theory of the MNE*'	The tacitness of knowledge requires interpersonal interaction for its transfer, and thus intraorganizational modes	Wholly owned vs. license/JV/other	'*We expect codifiability and teachability to be negatively related to the choice of transfer to wholly owned subsidiaries; complexity should be positively related*. As a secondary interest, ... age and previous times transferred ... predict a negative relationship to the choice of wholly owned subsidiaries.' (Kogut and Zander, 1993: 633, emphasis in original)	82 transfers by Swedish MNEs (binomial logit)	Support for codifiability, teachability and complexity, not significant for age and previous times transferred.
Madhok 1997	'*Organizational capability perspective*'	Values-based framework as distinct from the cost oriented approach of TCE. Key concepts: 'Potential for the erosion in the value of the firm's knowhow' (PEV); an 'ownership effect' arises when the knowledge of the investor is highly embedded in the organization. A 'locational effect' arises when local knowledge is highly embedded in local organizations.	Internalization vs. collaboration	P1: In the exploitation of existing advantage, a high PEV due to the ownership effect will result in a greater preference for internalization. P2: In the exploitation of existing advantage, a high PEV due to the location effect will result in a greater preference for collaboration. P3a: P1: In the exploitation of existing advantage, where the PEV due to the ownership effect is greater than due to the locational effect, there will be greater preference for internalization. (P3b is the converse of P3a)	Theory building paper, no empirical test	

				P4: Where the development/exploitation ratio is high, operations where the underlying motivation is capability development for the generation and realization of future value will result in a greater preference for collaborations than operations motivated by economizing on TC. P5: An operation motivated by value-based considerations will result in both a greater proclivity towards collaborating as well as a more positive stance towards collaborations than one motivated by TC economizing considerations.		
Anand and Delios 1997	No explicit positioning	Location-specific disadvantages, location-specific capabilities. In the hypotheses this is sharpened as the 'proportion of production that must occur at the time of consumption' (PPC).	Greenfield vs. acquisition vs. local partner joint venture (JV)	H1: Greater PPC → entry by acquisition or JV H2: Greater PPC → greater proportion of local employment H3a: In the foreign subsidiary's industry, the lesser PPC → better performance of greenfield relative to JV and acquisition entries H3b: In the foreign subsidiary's industry, the greater PPC → better performance of JV and acquisition relative to greenfield entries	Japanese outward, wholesale, and retail trade sectors (multinomial logit for H1)	Support for all hypotheses

Table 1. (*Continued*)

Authors	What they call their theory	Key concepts and line of argument	Choice set	Hypotheses	Empirical Test	Empirical Results
Barkema and Vermeulen 1998	Organizational learning perspective	Multinational and product diversity → nature of technological capabilities → start-ups vs. acquisition	1) Start-up vs. acquisition 2) 100% start up vs. 100% acquisition vs. JV-start-up vs. partial acquisition	H1: Multinational diversity increases propensity to start up rather than acquire H2: Curvilinear relationship between product diversity and expansion through start-ups rather than acquisitions H3: Curvilinear relationship between product diversity and expansion through start-ups becomes weaker at higher levels of multinational diversity H4: Horizontal, related and vertical expansions into foreign countries are more likely to be start-ups and unrelated expansions are more likely to be acquisitions	25 large nonfinancial Dutch firms (1. binomial logit, 2. multinomial logit)	1) Support for H1, H2, H3 in binomial logit models, support for H4 only in second model. 2) Support for all hypotheses in m-logit model
Chang and Rosenzweig 2001	Knowledge based approach	Knowledge accumulated from earlier entries affects subsequent entries	Greenfield vs. acquisition vs. joint venture	H1a: Greater competitive advantage of local firms → greenfield investment. H1b: The association (of H1a) will be stronger for early entries than for subsequent entries.	USA inward, 1975 to 1992 in electronics and chemicals (multinomial logit run on full and subsamples of early/ subsequent entries)	Mostly supportive

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				H2a: Foreign market entries in a new line of business → acquisition or joint venture. H2b: The association (of H2a) will be stronger for subsequent entries than for early entries. H3a: Cultural distance between home market and host market → greenfield. H3b: The association (of H3a) will be weaker for subsequent entries than for early entries. H4a: Prior international sales experience → greenfield. H4b: The association (of H4a) will be stronger for earlier entries than for subsequent entries. H5: Subsequent entries by the firm will tend to use same mode as used previously. H6: Subsequent entries in the line of business will tend to use same mode as used previously.			
Anand and Delios 2002	No explicit positioning	Capability seeking aspects of FDI: technologies are globally fungible, thus *relative* advantages attract acquisitions. Marketing assets are location bound and thus *absolute* level in the local context attracts acquisitions.	Greenfield vs. acquisition	H1: The higher the *relative* technological intensity of the host country in the entered industry → entry by acquisition. H2: The greater the advertising intensity of the entered industry → entry by acquisition H3: The more intensively sales force is used in the entered industry → entry by acquisition.	USA inward 1974–1991 (grouped probit)	Support for all hypotheses	

Table 1. (*Continued*)

Authors	What they call their theory	Key concepts and line of argument	Choice set	Hypotheses	Empirical Test	Empirical Results
Luo 2002	*'Dynamic capability perspective'*	Environmental hazards and organizational needs determine capability exploration and exploitation in foreign investment projects	WOS vs. JVs	H4: In a dynamic foreign market, WOS → capability exploitation, whereas a joint venture → capability building.	China inward FDI (OLS). Note: WOS are actually all greenfield)	H4 is supported
Chen 2008	No explicit positioning	Determinants of acquisition vs. greenfield vary between wholly owned and shared ownership projects.	Acquisitions vs. greenfield investments under full and partial ownership	H1: Capability procurements are more influential in motivating acquisitions over greenfield investments in full than in partial entries H2: Strategic considerations other than capability procurements are more influential in motivating greenfield vs. acquisitive entries under partial than full ownership H3: MNEs self-select full or partial ownership to justify the strategy they have chosen to enter foreign nations, be it greenfield investment or acquisitions	Japanese subsidiaries in US (H1 and H2: binomial logit models on subsamples; H3: two-step Heckman)	Strong support for H1and H2; support for H3 is inferred from the fact that the selectivity variable in the Heckman is significant.

and enter by a resource-exploiting mode. Firms with core competences based on location-specific competences prefer modes that access complementary local resources (Anand and Delios, 2002).

An important application of the RBV focuses on resources that have been developed by experiential learning. This research suggests that different forms of experience are best exploited by using modes of entry that match past strategies (Barkema and Vermeulen, 1998; Chang and Rosenzweig, 2001) and to form JVs *if* and *where* the investor lacks specific local resources (Li and Meyer, 2009).

MODES FOR RESOURCE EXPLOITATION AND AUGMENTATION

Most research has focused on dichotomous choices as a parsimonious representation of a range of possible entry modes; there is no comprehensive RBV-based theoretical framework as an alternative to Anderson and Gatignon's (1986) TCE-based classification. We review resource properties of available entry modes to provide a classification in terms of resource exploitation and augmentation potential. At one extreme of entry modes stand contractual arrangements to transfer knowledge. At the other are modes allowing foreign investors to acquire complex and organizationally embedded knowledge by taking over existing firms (Table 2). The core argument is that the nature of existing resources determines how a firm can grow by leveraging its own resources with external resources (Mahoney and Pandian, 1992; Meyer, 2006). Entry modes are classified into low, medium and high resource-augmenting modes, based on their merits for enhancing resources.

Low resource-augmenting modes include exports, cross-border provision of services, contracts, and consortia partnerships. Franchising and licensing are traditional means to transfer knowledge to an independent firm, allowing the transferor

Table 2. Entry modes classifications in RBV and TC perspectives

RBV perspective	TC perspective (Anderson and Gatignon, 1986)
Criterion: entrant's access to local resources	Criterion: entrant's level of control
High resource augmenting modes: acquiring bundled local resources	**High-control modes: dominant equity Interests**
Full acquisition	Wholly owned subsidiary
Dominant shareholder in partial acquisition	Dominant shareholder (many/few/one partner)
Medium-access modes: tapping into local resources	**Medium-control modes: balanced Interests**
Nondominant shareholder in partial acquisition	Plurality shareholder (many/few partners)
Dominant shareholder in joint venture	Equal partner (50/50)
Greenfield/branch office run with expatriate and local professionals	Contractual joint venture
Plurality shareholder in joint venture	Contract management
Equal partner in joint venture	Restrictive exclusive contract (e.g., distribution agreement, license)
	Franchise
	Nonexclusive restrictive contract
	Exclusive nonrestrictive contract
Low resource augmenting modes: exploiting HQ resources	**Low-control modes: diffused interests**
Greenfield/branch office run with only expatriate professionals	Nonexclusive, nonrestrictive contracts (e.g., intensive distribution, some licenses)
Temporary project offices	Small shareholder (many/few/one partner)
Consortium partnership	
License	
Franchise	
Cross-border provision of services	
Small shareholder	
Most other forms of contractual collaboration	

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to retain control through bargaining power. Specialized forms of non-equity collaboration enable multiple firms to jointly bid for and implement large projects. Such consortia draw on specialized knowledge of contributing firms, usually requiring a local presence (Hagedoorn and Hesen, 2007). All these modes allow only limited learning because of weak interfaces with local firms. Similarly, greenfield plants and branch offices staffed by expatriate professionals are low resource-augmenting modes (Florida and Kenney, 1991; Barkema and Vermeulen, 1998).

Medium resource-augmenting modes allow foreign entrants to tap into local host country resources while allowing exploitation of their own resources. Foreign investors requiring diverse skills and technology likely choose modes that facilitate learning and access to complementary resources from local partner firms (Erramilli, Agarwal, and Chekitan, 2002). These include partial acquisitions, minority or majority JVs, and the establishment of branch offices run by expatriates and local experts (Teece, 2003). We distinguish between partial acquisitions and newly created JVs. The latter entail the establishment of a new legal entity, where the parents specifically transfer the resources required to operate the JV. These learning vehicles (Inkpen and Beamish, 1997; Dhanaraj *et al*., 2004) contribute to resource augmentation but provide access to partner resources only if the partner makes them available to the JV. Partial acquisitions provide access to resources held by the local firm, including capabilities embedded in business practices and routines not easily transferred to a JV. Moreover, partial acquisitions often initiate a dynamic process leading to full control over local firms (Meyer and Tran, 2006), thus giving access to a wider range of resources than a JV.

Greenfield projects and branch offices provide access to local knowledge if experienced local professionals are recruited and work with those from the MNE. We thus differentiate between pure greenfield operations and those creating teams of professionals from the MNE and local experts, and thus provide a medium for learning about the local environment. Personal ties and relational embeddedness of expatriate managers in both organizations facilitates multidirectional knowledge exchange (Dhanaraj *et al*., 2004). Moreover, local employees enable entrants to develop networks of contacts with local parties, such as intermediaries and consultants. These modes create teams of professionals from parent and local management that facilitate organizational learning and resource augmentation. However, this does not allow tapping into the organizationally embedded knowledge of a local firm; we thus classify it as a medium resource-augmenting mode.

High resource-augmenting modes include majority or full acquisitions that allow entrants complete access to the resources of a local firm. Access to complementary resources is a major motive for acquisitions (Harrison *et al*., 2001) as it provides entrants with otherwise hard to obtain organizationally embedded resources.

The right-hand side of Table 2 replicates Anderson and Gatignon's (1986) classification to illustrate the innovative nature of our scheme. TCE analysis normally views entry mode choice as a trade-off between control and cost of resource commitments under conditions of risk and uncertainty (Hennart, 1988). Entry modes are thus chosen to maximize long-run efficiency. TCE-based studies mostly distinguish entry modes by level of equity held by foreign investors using binary distinctions between 'markets' and 'internal' modes (Erramilli *et al*., 2002), or categories of ownership and control, separating in particular minority and majority JVs (Pan and Tse, 2000).

Figure 1 illustrates the novel aspects of our classification by depicting the resource augmentation and control dimensions of entry modes in one graph. Most contractual collaborations provide little control or potential for resource augmentation (C1), yet some contracts are designed to acquire complementary resources such as buying a license (C2). These contracts are typically used by local partners rather than MNEs entering a country. Figure 1 also differentiates greenfield projects between those employing only expatriates (G1) and those creating mixed teams of expatriates and local professionals (G2).

The most notable difference between our classification and TCE-derived schemes is that we separate wholly owned acquisitions (A) from wholly owned branch offices and greenfield projects (G1) as we focus on resource augmentation. Compared to branch offices and greenfield projects, acquisitions provide access to all operations and hence resources of the acquired firm. Partial acquisitions (PA) provide high degrees of control and resource

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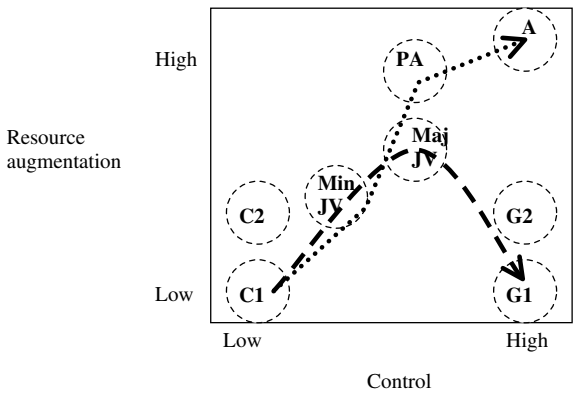

Figure 1. Control and resource augmentation of entry modes
⋯▶ Equity increases in (partial) acquisitions
– –▶ Equity increases in (newly created) joint ventures
Abbreviations
A = acquisition (fully foreign owned)
C1 = most contractual agreements, for example granting a license to someone else
C2 = contractual agreements to acquire knowledge based assets, such as patent or license
G1 = greenfield (fully foreign owned) with mainly expat professionals
G2 = greenfield (fully foreign owned) blending expat and local professionals
Maj. JV = joint venture, new entity with foreign investor holding majority equity stake
Min. JV = joint venture, new entity with foreign investor holding minority equity stake
PA = partial acquisition, equity stake in an existing operation

access, with increasing control positively associated with resource access.

In newly established JVs, the investor benefits only from resources provided by the local partner and learning opportunities from interaction between the two partners. Learning is enhanced if partners share benefits equally to avert adverse incentive effects, thus a JV may be most resource augmenting with roughly equal equity stakes (Barden, Steensma, and Lyles, 2005). Majority shareholders in a JV may find partners reluctant to contribute knowledge; thus the relationship between control and resource augmentation likely follows an inverse-U shape (see Figure 1). At low levels of control, relationships between control and resource augmentation may be positive; at high levels of control the minority partner would lack incentives to contribute knowledge and other resources.

DETERMINANTS OF ENTRY MODE CHOICE AND PROPOSITIONS

The RBV suggests that firms' growth paths are a function of their resources, notably their geographically fungible or location-bound nature (Figure 2) (Anand and Delios, 2002). This theoretical perspective allows the antecedents of the modes identified above to be explored. Firms with geographically fungible resources would need less local augmentation of resources. Firms competing using highly location-bound resources more likely pursue resource augmenting modes, unless they already have such resources in the specific context, for instance in the form of country-specific experience.

Geographically fungible resources

Geographically fungible resources provide a strong basis for competitive advantage at new locations. Unique organizationally embedded resources give rise to resource-exploiting entry modes (Hennart and Park, 1993). For example, specialized knowledge created by research in central research and development (R&D) facilities and the generation of product innovations worldwide is geographically fungible (Anand and Delios, 2002). Start-ups enable investors to exploit firm-specific advantages that are difficult to separate from the organization (Florida and Kenney, 1991). Hence, highly specialized technology induces firms to prefer contractual or greenfield modes (Buckley and Casson, 1998). Firms with few technological capabilities tend to obtain technology by acquiring innovative firms (Barkema and Vermeulen, 1998); these acquisitions then reduce the need to develop new skills internally (Hill, Hwang, and Kim, 1990).

Technological and organizational capabilities created centrally provide a basis for global exploitation strategies. Subsidiaries may gain local competitive advantages grounded in parent firm R&D as well as broader organizational and managerial expertise. Thus firms with geographically fungible outcomes of central R&D focus on applying capabilities and select less resource-augmenting modes when entering foreign markets. Hence:

Proposition 1: The more R&D intensive an MNE's operation in its country of origin, the less likely it is to employ resource-augmenting entry modes for new markets.

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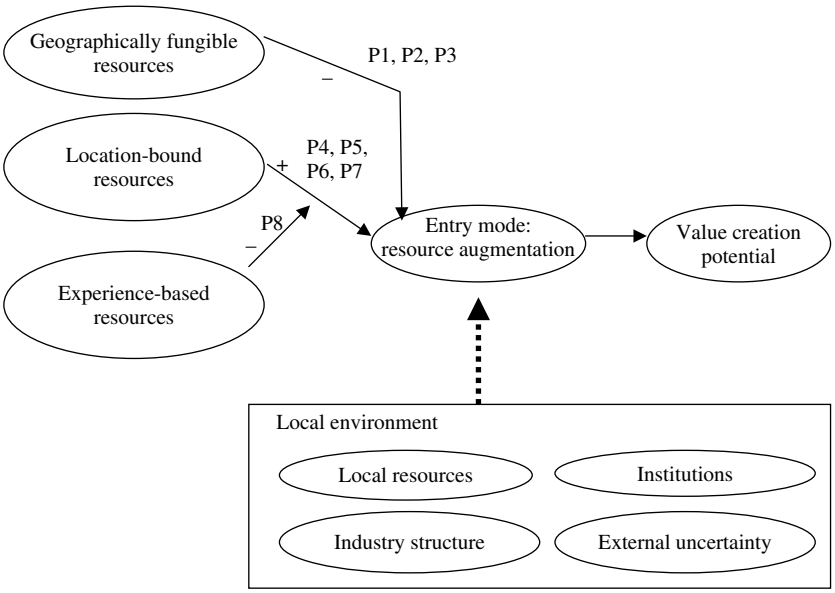

Figure 2. A resource-based framework for analyzing the efficiency of entry modes

Geographically fungible knowledge is also pertinent in many business-to-business markets, where customer needs may vary less than for consumer products. To serve other businesses, a key competitive parameter is understanding the needs of the customer organization. For instance, component suppliers to the automotive industry typically specialize in a single industry sector and develop competences to serve its needs (Buckley, Pass, and Prescott, 1992). Since procurement tends to be quality conscious and price sensitive, and businesses have similar needs to their counterparts in other countries (Boddewyn, Halbrich, and Perry, 1986), in-depth knowledge of particular customer industry needs may transfer easily to other countries. Thus:

Proposition 2: The more firms sell in specialized business-to-business markets, the less likely they are to employ resource-augmenting entry modes.

Many firms also expand internationally as 'customer followers.' Their pivotal capabilities driving internationalization are relationship-specific, yet transferable across borders (Dyer and Hatch, 2006). Such firms may distinguish between *customers*, defined as organizations awarding the contract, and *clients*, who are the recipients of the goods or services. MNEs may have central procurement for certain services that are to be delivered to sites in multiple countries, while organizations like development-aid agencies are major contractors for knowledge-based services to be delivered in third countries. Firms selling to MNEs likely require local units to execute terms of reference provided by headquarters, typically doing so by drawing on the parent's global competences, and are thus less likely to seek local resources:

Proposition 3: The more firms sell to organizations that source internationally, the less likely they are to employ resource-augmenting entry modes.

Location-bound resources

Other firms build competitive advantages on location-bound resources, such as local knowledge or networks. They internationalize by combining internationally transferable resources with local resources in each country of operation. Entry strategy is concerned with gaining access to corresponding local resources in the host country. The local resources of interest to K-I firms are typically also based on tacit knowledge, and thus organizationally embedded. Access to such resources can best be gained by acquisition or collaboration with a local firm (Kogut and

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Singh, 1988), that is high resource-augmenting entry modes. Local organizationally embedded resources, such as distribution networks and brand names, frequently motivate acquisition entry (Anand and Delios, 2002). Local knowledge and networks are especially important for businesses that intensively interact with customers during delivery (Malhotra, 2003; Pruthi, Wright, and Lockett, 2003). For example, services such as accounting need to be localized to reflect local accounting rules (Buckley *et al*., 1992; Dawar and Chattopadhay, 2002). Need for localization or proximity to customers suggests establishing a local presence (Erramilli *et al*., 2002) and, where firms need locally adapted skills and technology, a local partner may help. Hence:

Proposition 4: The more firms compete with capabilities adapted to the specific context, the more likely they are to employ resource-augmenting entry modes.

Location-specific resources deployable in a variety of industries give rise to domestic product diversification. Shared resources include technologies, as well as networks and managerial knowledge on the local environments (Khanna and Palepu 2000), especially institutions (Peng, Lee, and Wang, 2005). These resources are typically country specific and immobile across international borders. Internationalization would require more complementary local resources (Harzing, 2003) through adopting a multidomestic strategy with relatively autonomous local operations. Diversified firms are thus associated with acquisition-based external growth. Specialized firms more likely grow internally by developing new applications (Hennart and Larimo, 1998). Firms focusing on few product lines likely possess unique knowledge associated with production processes and associated business practices. They create local operations to mirror parent firms and thus deploy knowledge-based resources unconstrained by the organizational structures of a partner firm. They likely build operations as greenfield branch offices or knowledge transfer contracts. Hence:

Proposition 5: The more firms are diversified across industries in their home market, the more likely they are to employ resource-augmenting entry modes.

Idiosyncratic knowledge-based resources create differentials in the quality of goods or services (Boddewyn *et al*., 1986). Yet, customers cannot easily assess their quality, giving rise to extensive information asymmetry. Where arms-length transactions would not lead to efficient outcomes, firms may rely on alternative mechanisms to ensure quality of delivery: network relationships or reputation. Business networks reduce operating costs in imperfect markets in multiple ways. They facilitate the exchange of confidential information prior to assigning a contract, and may create incentives to deliver high quality in expectation of a continuing relationship. For example, being part of financial networks gives internationalizing venture capital firms access to local syndication networks (Wright and Lockett, 2003). Foreign entrants in markets where networking is important may prefer to tap into local partner networks with a resource-augmenting entry mode:

Proposition 6: The more firms sell through long-term business networks, the more likely they are to employ resource-augmenting entry modes.

Reputation is an alternative way to overcome market failures due to information asymmetries. With information asymmetries, foreign entrants build legitimacy with local constituents (Kostova and Zaheer, 1999) and establish a reputation. Perception of brand image by purchasers is thus an important competitive advantage, especially in services (Boddewyn *et al*., 1986). Cross-border brand transfers generally occur for few global brands with globally mobile customers (Dunning and McQueen, 1981). Consumers tend to have strong attachment to and trust in local brands (Meyer and Tran, 2006). In consequence, strong incumbent brands and high advertising expenditures serve as effective barriers against greenfield entry (Kessides, 1986). For K-I firms, the development of brands and reputation is complex because they depend on close and repeated interaction with clients (Bowen and Schneider, 1988). However, reputation is especially important when conventional selling methods are ineffective due to lack of standardization (Teece, 2003). Thus, K-I firms for whom brand names are important likely enter arrangements providing access to partners' or acquired firms' reputation or brands. Entrants thus leverage brand image and reputation of local firms if they are not well-known in this market. Hence:

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Proposition 7: The more firms rely on brand name or reputation in each local market, the more likely they are to employ resource-augmenting entry modes.

Experience as a resource

Resources created by cumulative, experiential learning facilitate subsequent foreign entries. In particular, prior host country experience likely reduces costs of subsequent business activities at the same location (Delios and Henisz, 2003), thus reducing dependence on local partners and their organizationally embedded resources. The direct effect of experience on mode choice is ambiguous (Li and Meyer, 2009): it likely facilitates finding a partner with suitable complementary resources (Makino, Lau, and Yeh, 2002), but makes cooperation with a local partner less necessary (Barkema and Vermeulen, 1998). However, local experience moderates the motives for seeking resource-augmenting modes discussed in Propositions 4 to 7. A foreign investor that has built-up local knowledge of a particular context already possesses local resources (such as reputation) that would motivate other firms to pursue a high resource-augmenting entry. More generally, local experience reduces the need to access local knowledge through local partners. Hence:

Proposition 8: The more firms have experience in the local context, the weaker are the effects motivating resource-augmenting entry modes proposed in Propositions 4 to 7.

Complementarity of resource-based and transaction cost perspectives

The RBV and TCE provide different theoretical lenses to analyze entry strategies. They are based on different assumptions about the nature of economic actors, and therefore point to different conclusions regarding optimal firm behavior (Leiblein, 2003). Yet, they complement each other in explaining mode choice and its underlying motives of cost efficiency and value creation (Table 3).

The unit of analysis is the firm in RBV, but the transaction in TCE. With RBV we analyze which mode of entry is most suitable to exploit and augment the existing resource base of the firm. Our framework thus considers operations from a *firm*-level perspective, while TCE-based models require the isolation of a specific *transaction*. Joint consideration of multiple activities reflects interdependence and knowledge flows between units of the same firm. Entry modes may be chosen to enhance the knowledge base, for instance by creating learning opportunities, rather than to optimize each transaction in isolation, an effect missed using transactions as the unit of analysis.

A second difference is that our framework focuses on *resource augmentation* as a distinguishing criterion of entry modes, whereas TCE-based frameworks focus on *control*. Many TCE-based studies focus on integration versus contracting-out decisions, and emphasize asset specificity, opportunism, and uncertainty. Yet, evidence on the role of uncertainty in the TCE framework is inconclusive (Carter and Hodgson, 2006), while it is controversial whether opportunism is necessary to explain market failure (Kogut and Zander, 1993; Love 1995, Conner and Prahalad, 1996). K-I firms generally attain competitive advantages by combining different types of knowledge held at different levels of the organization (Brown and Duguid, 2001), and 'communities of practice' may be essential to facilitate this sharing and combining of knowledge (Kogut and Zander, 1996). Opportunistic imitators cannot easily replicate this combination, so opportunism may be of less concern to businesses than theorists assume (Malhotra, 2003).

The objectives assumed to determine entry mode choice are value maximization in the RBV (Zajac and Olsen, 1993; Anand and Khanna, 2000) and (opportunity) cost minimization in TCE (Anderson and Gatignon, 1986; Hennart, 1988). Along these lines, recent studies of strategic alliances have emphasized value creation through learning processes in the interaction between partners (Khanna, Gulati, and Nohria, 1998; Rothaermel and Deeds, 2004). Correspondingly, the RBV argument presented here revolves around processes of resource exploitation and augmentation. It complements TCE-based analysis of internal and external factors that raise the costs of implementing a transaction, and recent work on exchange property rights (Foss and Foss, 2005), as the costs of protecting the bundles of property rights associated with resources may differ

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Table 3. Complementarity of resource-based and transaction-cost perspectives on entry modes

	Resource- based perspective [this study]	Transaction cost perspective (Anderson and Gatignon, 1986)	Tensions
Criterion for classifying modes	Augmentation of resource base • Acquisitions provide substantially more access to resources than greenfield • Partial acquisitions provide moderately more access to resources than joint ventures	Control over local operations • No differentiation between acquisitions and greenfield, both are 'full-control' entry modes • Differentiation of partial acquisitions and joint ventures by level of foreign ownership	Augmentation of resource base and control not independent; firms seeking access to resources may compromise on control; most efficient form of governance may be chosen only in the absence of resource constraints (Combs and Ketchen, 1999)
Level of analysis (dependent variable)	Firm/organization	Transaction	Entry modes at firm level may be chosen to stimulate learning for anticipated later transactions
Objectives of the entry mode choice	Value maximization	Transaction costs minimization	Process of internalization acts as isolating mechanism for value maximization or protection of resource base from dissipation (Rugman and Verbeke, 2002)
Key concepts	Knowledge exploitation and augmentation	Asset specificity, internal and external uncertainty, opportunism	Asset specificity is a necessary condition for isolating mechanisms in the absence of government intervention (Mahoney and Pandian, 1992); opportunism is unlikely when resource base is inimitable

according to different resource-augmenting modes of entry.

The frameworks also differ in how certain modes are classified. Anderson and Gatignon's (1986) classification focuses on control. In our RBV-based classification, branch offices and greenfield projects are at the opposite end of the scale from acquisitions because the latter are a prime mode to access local resources, while greenfield projects serve to exploit firms' existing resources. Similarly, we distinguish between JVs and partial acquisitions. The classification schemes in Table 3 show the complementarity of TCE and RBV perspectives on entry modes, while Figure 2 provides a starting point for future research exploring this complementarity. There are likely trade-offs because dimensions of resource access and control are probably not independent; firms seeking access to local resources may compromise on control and form a JV instead of a wholly owned greenfield operation.

CONCLUSIONS

The RBV framework developed here provides a new perspective on foreign investors' entry strategies. It suggests that K-I firms in particular design foreign entries around their resource base since alternative entry modes provide different opportunities for value creation by exploiting or augmenting firm-specific resources. Firms with geographically fungible resources may focus on exploiting their own resources, benefiting more from low resource-augmenting entry modes. Firms rich in location-bound resources may need to acquire local complements, and thus find it worthwhile to enter through resource-augmenting modes. These may be vital to acquiring market-specific knowledge, building local networks, and accelerating learning processes that help firms to adapt to the local context.

Future research may test our model, but needs to pay special attention to the classification of entry

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modes. Some databases may provide a limited range of proxies that have not been fully utilized before (Barkema and Vermeulen, 1998), but survey instruments may be more suitable to capture the full range of modes. Web sites may provide complementary information on types of business activities or the nature of experiential resources of executives. Empirical work combining our model with TCE may distinguish four modes: de novo JV, partial acquisition, acquisition, and wholly owned greenfield operations. Our arguments may be more powerful to explain partial acquisition, JVs, and full acquisitions versus greenfield, whereas TCE arguments may be more powerful to explain ownership. It may be particularly interesting to investigate these issues for K-I service MNEs, for whom resource combination is an important factor in attaining competitive advantages abroad.

Future theoretical work may connect our framework to explore moderating effects arising from the local context, notably its institutional framework (Brouthers and Brouthers, 2003; Wright *et al*., 2005, Meyer *et al*., 2008; Li and Meyer, 2009) and the resource quality of local firms (Anand and Delios, 2002). In addition, RBV perspectives lend themselves to longitudinal analysis of mode of operation evolution since entry mode decisions may be influenced by anticipated future costs of switching to other modes (Welch, Benito, and Petersen, 2007), or the nature of subsequent decision-making processes (Klossek, 2008).

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