# Chapter 6
# Joint Venture Efficiency through Skills Complementarity or by Reducing Transaction Costs?
## A Case Study of an Apparel Company in an Emerging Market

**José G. Vargas-Hernández**
*University of Guadalajara, Mexico*

**Antoniadis I. Ioannis**
*Western Macedonia University of Applied Sciences, Greece*

**L.E. González-Armenta**
*University of Guadalajara, Mexico*

## ABSTRACT

*This paper aims to examine the main strategies multinational companies implement to enter new markets, and more specifically emerging ones, by reviewing the determinants of the strategic choice between establishing a joint venture formed by a multinational and a local partner, and the merger/acquisition of a local firm. By reviewing the relevant literature, we explore the strategies that Multinational Enterprises (MNEs) follow to enter new markets in emerging economies. Finally we put the literature in test by presenting a case study of a clothing retail company that has been a platform for multinationals wishing to enter the market of Mexico.*

DOI: 10.4018/978-1-5225-0843-4.ch006

## 1. INTRODUCTION

Emerging markets represent a new promising field for multinationals and big national firms as well, seeking to expand their activities, by exploiting and increasing their market power through the merits derived by a globalized economy. Entering a new market however can prove to be a difficult and challenging endeavor that even a multinational with a big pool of resources may find too risky and difficult to undertake on its own.

International Business literature offers a wide range of strategic choices that are available for companies wishing to enter enter new markets. Vargas-Hernandez et al. (2014) suggested the existence of four strategic situations where a firm is trying to enter new markets. First it is the case in which firms from developed economies are entering markets of emerging economies. The second case arises when domestic firms in emerging markets compete in developing existing or new markets within the emerging economy. The expansion of firms from emerging markets into other emerging market is the third possible situation, and finally, there is the case wherea company from an emerging economy is looking for entry in markets of developed economies. Literature and common sense, dictates that in all four cases firms wish to expand firstly to markets that are more similar to the ones they already control as a measure of reducing their risks associated with the entry in a new market (Cateora et al., 2011: p.339-344) and the formation of a new organization (Kogut and Singh, 1988; Pothukuchi et al., 2002)

The next most important decision that must be taken is the choice of the new organizational form that will operate in the new market. Research in multinational companies identifies three different strategic and organizational approaches of entry in foreign markets (Hennart and Reddy, 1997; Harzing, 2002, Raff et al., 2009b). The first one is a non equity approach where firms enter a new market by exporting indirectly through agents, distributors, trading companies, or licensing.

The two other approaches include the creation of an organization where the firm entering the new markets will hold ownership, full or partial, and will contribute in some form of equity, through Foreign Direct Investment. The options for a company in this case are double fold. The first one is to invest in creating a fully owned subsidiary or plant in the new market, that is called a greenfield investment (Harzing, 2002), where the company will have the ownership and therefore the total control of the created subsidiary. The second one is to acquire a local company (brownfield investment) or form a Joint Venture with a local partner where ownership, control and risks are shared as the two parties contribute tangible and intangible assets in the new company created towards a commonly accepted goal.