MNCS' PROPENSITIES TO REEVALUATE AND CHANGE FOREIGN MODES OF OPERATIONS DURING A FINANCIAL CRISIS

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ABSTRACT

The major goal was to investigate multinational companies' (MNCs) propensities to reevaluate and change their foreign operational modes during a financial crisis in a big emerging market. We grounded our study in the contingency perspective of foreign entry mode decisions, which implies that foreign entry/operating mode decisions should be dynamic in nature, and fine-tuning should take place whenever major changes occur to contingency factors. In a survey conducted during the current Argentine financial crisis, we found that the majority of multinational firms (64.4%) indeed regarded a reevaluation of the foreign mode of operations during the crisis as important, while about one third viewed it as either neutral or unimportant.

On whether to change their level of resource commitments during the crisis, most firms (57.7%) would remain the same, 35.6% prefer small changes, and 6.4% would consider major changes. MNCs using exporting, licensing, joint ventures, and sole ventures were found to be equally patient during the crisis. Exporters and licensors willing to change their foreign operational modes uniformly preferred increases in resource commitments, mostly in the form of FDI. Conversely, 4.2% of joint venture partners and 15.8% of sole venture owners chose to decrease resources during the crisis. The research, managerial, and policy-making implications were discussed.

Keywords: foreign market entry modes, foreign modes of operations, contingency perspective of foreign market entry modes, Argentine financial crisis, multinational companies, strategic responses, emerging markets

INTRODUCTION

Academic studies of foreign market entry modes (FEMs) have typically followed a contingency perspective, which has roots in early writings of Chandler (1962), Rumelt (1974), and Thorelli (1977). Its central theme is that a close fit should be maintained at all times between antecedent factors and the governance form for foreign operations.

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As such, entry mode decisions should be dynamic in nature, and fine-tuning of existing foreign modes of operations should take place whenever major changes occur to contingency factors.

While impressive progress has been made on the identification of antecedent factors of FEM selections, a key weakness still remains – previous studies have largely adopted a static approach to study foreign market entry mode decisions. In other words, the existing FEM literature largely focuses on multinational companies' selection of the initial mode for foreign market entries (e.g., Anderson and Gatignon 1986, Bello and Lohtia 1995, Herrmann and Datta 2002, Kim and Hwang 1992, Makino, Lau, and Yeh 2002, Palenzuela and Bobillo 1999, Sun 1999, Woodcock, Beamish, and Makino 1994). In particular, no published studies have examined multinational companies' propensity to reevaluate and change their existing operational modes during the most volatile changes of all in the external environment – a financial crisis in an emerging market.

Emerging markets, with their uniformly heavy reliance on external capital for economic development, are highly vulnerable to financial crises (Grabel 2000, Singh and Yip 2000). According to Sachs (1999), emerging market financial crises are characterized by an abrupt and significant reversal of capital flows; and their major components of may include sub-crises in currency, banking, and foreign debt. Characterized by drastic policy changes, government turmoil, and social unrests, Argentina in 2001-2002 was experiencing its worst political and economic crisis since 1983 (Cooper and Madigan 2002, Goodman 2002). The complex and volatile changes in the currency value, government policies, consumer demand, and support industries, among others, present major challenges to the operations, sales, and profitability of all multinational firms doing business in the market.

Crisis situations call for crisis management responses and MNCs must expect and deal with a financial crisis as it occurs (Bartels and Freeman 2000, Goodman 2002, Singh and Yip 2000, Thompson and Poon 2000). As Beck (2000) has correctly observed: "The company enters (a major economic crisis) like a soldier landing in alien territory and must focus its first change efforts on understanding the new environment" (p. 13) and "these events … drastically force companies to reconsider their approach to business, and consider new, innovative ways of coping with the world" (p. 15). How, then, would multinational companies (MNCs) respond to the financial crisis in this emerging market? Do they closely monitor the environmental changes and assess their existing modes of operations? Do they make adaptations to their operational modes? If yes, how would change their current operational modes? Considering the paucity of prior research and the important need to more fully understand multinational firms' crisis responses in emerging markets, we conducted a survey of MNCs doing business in Argentina in late 2002 to examine their propensity to reevaluate and change their foreign market entry modes during the current Argentine financial crisis. Our specific research objectives were as follows:

1. To explore whether MNCs would reevaluate their foreign modes of operations (FMOs) in the face of a financial crisis;

2. To observe whether and how MNCs would be willing to change their FMOs during the crisis;
3. To examine the link between MNCs' propensity to reevaluate the FMOs and willingness to change them;
4. To compare MNCs' responses across their industry, size, nationality, and type and irreversibility of their current FMOs to detect significant differences.

In the rest of the paper, we will provide some background information on the 2001-2002 Argentine financial crisis, describe the method and results of data collection, report and discuss our research findings, and explain the research, managerial, and policy implications of the study.

ARGENTINE FINANCIAL CRISIS (2001-2002)

Argentina is no stranger to financial crises, as it has consistently wrestled with economic upheavals over the past 30 years (Saccomano 2002). Mostly recently, in 1991 the Menem administration introduced the peso-convertibility plan, which linked the Argentine peso to the American dollar at a value, in an effort to curb Argentina's chronic four-digit annual inflation rate and attract overseas investments. During the 1990s Argentina torn down its trade barriers, opened its capital markets, and sold off many state assets, from banks to ports, to the private sector, and to foreign investors in particular (Wallin and Moffett 2002). As a result of these privatization and liberalization policies, more than $89 billion of foreign investment flowed into Argentina from 1994 through 2000.

The progress made in many areas was undermined, however, by sticking too long to an overvalued currency peg and by a lack of fiscal prudence (Kiguel 2002). In 1996, as it was able to recover from the effects of the Tequilla crisis in Mexico (Zhang 2000), Argentina experienced stagnation in trade, largely due to the overvaluation of the peso, relative to other countries, specifically Brazil, whose currencies depreciated against the US dollar since the beginning of 1997 and encouraged their exporting (Feldstein 2002). The government also struggled through fiscal imbalances from pressures of increasing external debt, growing disparity on the country's social stability, and double-digit unemployment rates. By 1999, the Argentine economy went into a deep recession (Challenge 2001).

In December 2001, Argentina defaulted on $142 billion in debt to foreign financial markets and the following month it abandoned the policy of pegging its currency, peso, to the U.S. dollar. Since then, Argentina has witnessed the most significant regulatory changes in decades. The more significant changes include devaluation of the local currency, setting up exchange controls, the compulsory conversion of foreign currency accounts payable and receivable into Argentine pesos at below market rates, freezing bank deposits, a return to double digit inflation rates, defaults on public debt, and the introduction of export duties (Solano and Rybnik 2002).

While Argentina's economy rebounded from its recession and financial crisis, with half the population in poverty and with one in five unemployed, plus high interest rate and curtailed consumer spending, 2003 was another rough year for the country (Cooper and Madigan 2002). The new and sixth president since October 2001, Nestor Kirchner, who took office late May 2003, still has a daunting task of restoring credit lines with the IMF and bringing back the foreign investors who fled the country when the economy imploded (Rohter 2003).

METHODOLOGY

Sample and Context

Our sample frame was a list of companies with business operations in Argentina, compiled from the International Directory for Foreign Companies and the Hoover's Company List. These directories supplied the names of the top executives and general mailbox addresses. By extensively searching corporate websites of the above companies, we compiled a list of 300 email contacts, representing 300 different companies doing business in Argentina. Subsequently, we sent out email messages asking these executives for their participation in our study. Given our research objectives, we chose to conduct the survey in late (October-November of) 2002, in the midst of the financial crisis. The following quote shows a glimpse of the widespread perceptions among external investors of the severity of the crisis at the time.

> "During the first part of this year, many observers noted with satisfaction that Argentina's debt default had not infected its neighbors. This optimism now appears to be overstretched. Contagion is back on the international agenda, fuelled by political uncertainty."

Hans Hoogervorst, October 15, 2002

Survey Methodology and Responses

We asked the respondents to visit a website by clicking a link included in the email invitation. From the 300 email contacts, 228 people clicked on our link, 198 answered question one, while 123 completed the survey. Given the critical and time-sensitive nature of our survey to multinational companies doing business in Argentina, it was not surprising that more than 70% of our email recipients clicked on the link and visited the website. Indeed, the CEO of a top 100 firm in Fortune's largest global companies sent a separate email message to us indicating their interest. Of the 123 completed surveys, 82 respondents qualified, yielding a 67% qualification rate and a 27.3% effective response rate. Qualification was measured in terms of respondents' affiliation with a multinational firm with operations in Argentina at the time of the crisis and their involvement in international business decisions. Both our response rate and number of responses are comparable to previous studies of MNCs' crisis responses in the Asian context (e.g., a sample size of 31 and a response rate of 28% in

Bartels and Freeman 2000, and a sample size of 93 and response rate of 12% in Thompson and Poon 2000).

Possible non-response biases were examined by comparing characteristics of early and late respondents (Armstrong and Overton 1977). Early responses were coded as ones coming in the first week and the rest were considered late responses. No significant differences were found between early respondents and late respondents along years of in the position, years with company, the number of employees, and the current modes.

Measures

Multinational company's *propensity to reevaluate the foreign modes of operations* was measured with one question: "In times of economic crisis do you find it important to reevaluate the multinational company's initial foreign market entry mode decision?" The responses were captured by a 5-point scale ranging from (1) very important to (5) very unimportant. We used two instruments to capture MNCs' *propensity to change their foreign modes of operations*. First, we asked about the degree to which their desirable level of resource commitments in Argentina, given the crisis situation, would be different from that of their initial entry. The answers were captured by a scale anchored by 1 (increase greatly) and 5 (decrease greatly). We chose to study MNCs' willingness to change their level of resource commitment because this judgment has been considered as the most important decision in the FEM choice process (Anderson and Gatignon 1986, Sharma 2002). Our second instrument involved the comparison of MNCs' current mode of operations in Argentina and their ideal mode under the current economic and financial situations in the country. This comparison illustrates the direction of changes, if any, that MNCs would make in dealing with the crisis. In asking about the firms' *ideal modes of operations,* we again reminded the executives to choose all answers that would apply, considering the possible concurrent use of several entry modes in the same operation.

With regard to the measures for control variables, we measured the nationality of the multinational companies by a question about the location of the company's headquarters. We measured the industry of the MNCs by asking the respondent to choose from a list including banking/financial services, business services, health/pharmaceuticals, IT/telecommunications, leisure, manufacturing, media, retail, travel, and other. The number of employees in the local operations was used to measure the size of the MNC at the local level. Considering the emerging trend of using plural modes in foreign operations, we designed the measure for *current modes of operations* to allow for multiple modes, such as licensing, exporting, joint venture, whole owned subsidiaries, and others, to be chosen at the same time. The *Irreversibility of current modes* was measured by the following question: "Is this mode irreversible (1 = definitely yes; 5 = definitely no)?"

Respondent Information

Table 1 reports the demographic information of our respondents and represented firms. We measured the nationality of the MNC by with the location of its headquarters. Its industry was measured by asking the executives to choose from a list of choices including banking/financial services, business services, manufacturing, retail, and others. The number of employees in the local operation was used to capture the size of the MNC at the local level. Most firms (86.2%) reported only one mode of operation, while 13.8% employed more than one mode. Thirty percent (30%) of the executives regarded their operational modes as irreversible and 32.9% described their operational modes as not irreversible, while the rest answered "possibly yes".

Table 1. Information on the Respondents and Represented MNCs

Industry	**Percentage**
Banking/Financial Services	6.0 %
Business Services	11.9 %
Health/pharmaceuticals	6.0 %
IT/Computing/Telecommunications	14.9 %
Leisure/	4.5 %
Manufacturing	10.4 %
Media	3.0 %
Retail	10.4 %
Travel	4.5 %
Other	28.4 %
Size of Local Operations (# of employees)	**Percentage**
Less than 100	37.3 %
101-1000	22.5 %
1001-5000	13.5 %
More than 5001	26.7 %
Nationality	**Percentage**
USA	91 %
Other (Germany, UK, etc.)	9 %
Respondents	**Percentage**
Years in company	
2 or less	38.6 %
3 – 4	20.9 %
5 – 8	4.5 %
More than 8	35.8 %
Years in position	
2 or less	43.0 %
3 – 4	21.2 %
5 – 8	9.1 %
More than 8	16.7 %
Position	
CEO/President/Owner	21.4 %
Vice President	8.6 %
Senior Executive	8.6 %
Executive	51.4 %
Other	10.0 %

RESULTS

MNCs' Propensity to Reevaluate Foreign Modes of Operations during the Crisis

Based on the contingency theory of foreign entry mode decisions, we expected the MNCs to monitor the changes in the changes in the external environment and reevaluate their foreign modes of operations in light of the external changes. The findings shed light on this prediction as 64.9% of the executives felt that it was important to reevaluate the foreign modes of operations at time of economic crisis in an emerging market. Meanwhile, it is worth noting that 9.7% of the respondents regarded the FMO reevaluation as unimportant and the rest 25.6% were indifferent (by answering "neither important nor unimportant"). The t-test result also show that the average response of MNCs on this question, 2.30, was significantly smaller than 3, the mid-scale point (t = -5.86). Therefore, an average MNC would regard FMO reevaluation as important, confirming our prediction based on the contingency perspective of foreign market entry mode decisions.

Table 2. MNCs' Perceived Importance of Operating Mode reevaluations During the Financial Crisis

Question: "In times of economic crisis do you find it important to reevaluate the multinational company's initial foreign market entry mode decision?"

Answers	Percentage
1. Very important	22.0
2. Somewhat Important	42.7
3. Neither important – or unimportant	25.6
4. Somewhat unimportant	2.4
5. Very unimportant	7.3
Total	100.0
Average answer	2.30 (t = -5.68 [a])

a. The t-test is about the difference between the average and the mid-scale point of 3.

Propensity to Change Foreign Modes of Operations during the Crisis

In one measure of MNCs' *propensity to change their foreign modes of operations*, we asked about the degree to which their desirable level of resource commitments in Argentina under the crisis situation would be different from that of their initial entry. As shown in the last two lines of Table 3, the average response to this question is 2.79, close to but still significantly smaller than 3 at 0.05 (t = -2.38; 1 = increase greatly and 5 = decrease greatly). Also, the majority of the companies studied (57.7%) would make no changes to their level of resource commitments in Argentina, whereas 29.6% would somewhat increase it despite the crisis conditions. About 10% would decrease their resource commitments, and less than 3% would greatly increase their resource commitments. Therefore, the most popular stand among the MNCs in regard to the level of resource commitment during the crisis was to maintain the status quo; and if any changes were to be made, they would mostly be small ones.

Table 3. Cross-Tabulation of Reponses by Current Mode of Operations and Willingness to Change Resource Commitments

Current Mode of Operations	How To Change Level of Resource Commitment					Total
	Increase Greatly	Increase Somewhat	Remain the Same	Decrease Somewhat	Decrease Greatly	
1. Exporting	8.3%	50.0%	41.7%	0.0%	0.0%	100.0%
2. Licensing	16.7%	33.3%	50.0%	0.0%	0.0%	100.0%
3. Joint Ventures	4.2%	37.5%	54.2%	4.2%	0.0%	100.0%
4. Sole Ventures	5.3%	42.1%	36.8%	10.5%	5.3%	100.0%
Total [a]	**2.8%**	**29.6%**	**57.7%**	**7.0%**	**2.8%**	**100.0%**
Average answer of all respondents	**2.79 (t = -2.79) [b]**					

a. The percentage distribution of the total sample also includes MNCs report their current operating mode as other than one of the four given in the table.
b. The t-test is about the difference between the average and the mid-scale point of 3.

Table 4. MNC's Ideal Modes of Operations in Argentina during the Crisis – By Current Mode of Operations

Current Mode	Ideal Mode in Crisis				Total
	Exporting	Licensing	J/V	Sole Venture	
Exporting	58.3%	16.7%	8.3%	16.7%	100 %
Licensing	0.0%	41.7%	16.7%	41.7%	100 %
J/V	12.5%	12.5%	50%	25.0%	100 %
Sole Venture	5.3%	10.5%	21.1%	63.2%	100 %

In the form of cross-tabulation of current and ideal modes of operations (the second measure of FMO changes), Table 4 further displays the pattern of MNCs' preferred FMO changes, if any, during the Argentina financial crisis. As shown, 58.3 % of exporters and 41.7% of licensors specifically regarded their current mode of operations as ideal at the time of crisis; comparable to the 50% for joint venture partners and 63.2% for sole venture owners who specified their current operational mode as ideal. Similar to the finding based on the first measure, about half of all firms would like to keep their current mode of operations.

Relationship between Propensity to Reevaluate the FMO and Willingness to Change It

A reevaluation of the foreign modes of operations done at the time of crisis entails closely monitoring the changing environment and assessing its impacts on the firm's existing operations. Such a reevaluation should enable the firm to make critical decisions on whether, how, and when to respond their business strategy to the economic crisis. However, we expected that an FMO reevaluation should not necessarily lead to a change to a company's operations in the country; the firm could decide to continue to the monitor the changes and make no immediate changes to the operations. To verify this predication, we used the correlation coefficient and cross-tabulation analysis to explore the link between a firm's propensity to reevaluate the FMO and its willingness to change the level of resource commitments. To do this, we recoded the willingness to change resource commitments into "no change," "change somewhat," and "change greatly" categories to capture the incremental nature of changes (see Table 5). The correlation between the two variables was a nonsignificant 0.01 ($p > 0.1$), showing no linear relationship between the propensity to reevaluate the FMOs and the tendency to change it in terms of the level of resource commitments. The ANOVA test of the effect of reevaluation propensity and change willingness was also non-significant ($p = 0.44$, see Table 5). The non-significant correlation coefficient and F value in the ANOVA test confirmed our above predication. Therefore, a high propensity to reevaluate the foreign mode of operation indeed did not automatically result in a willingness change to a company's level of resource commitments in the country.

A closer look at the contingency table (see lines 4 and 5 of Table 5) further reveals that when the executives perceived the FMO reevaluation as unimportant, their propensity to change resource commitments in Argentina was either "no change" or "change somewhat." On the other hand, when executives perceived FMO reevaluation as important (see lines 1 and 2 of Table 5), they seemed to be more willing to make major changes. For example, when the answer to the reevaluation question was "very important," the percentage of executives preferring major changes to their resource commitments rose to 11.2%. This comparison shows that executives viewing FMO reevaluations as important might eventually conduct thorough evaluations; and the informative results to enable them to recommend major changes to their foreign operations. At the same, a somehow surprising note is that 10% of the executives would prefer major changes to their resource commitments whiling considering the FMO reevaluation as neither important nor unimportant.

Differences in MNCs' Propensity to Reevaluate and Change Their FMOs across Control Variables

Table 5. Cross-Tabulation of Reponses by Perceived Importance of Operating Mode Reevaluation and Willingness to Change Resource Commitments

Perceived Importance of Operating Mode Reevaluations	How To Change Level of Resource Commitment							Total
	Remain the Same	Change Somewhat			Change Greatly			
		Group Total	Increase somewhat	Decrease somewhat	Group Total	Increase Greatly	Decrease greatly	
1. Very Important	**50.0%**	**38.8%**	22.2%	16.7%	**11.2%**	5.6%	5.6%	**100 %**
2. Somewhat Important	**55.9%**	**41.2%**	41.2%	0.0%	**2.9%**	.0%	2.9%	**100 %**
3. Neither Important Nor Unimportant	**75.0%**	**15.0%**	15.0%	0.0%	**10.0%**	5.0%	5.0%	**100 %**
4. Somewhat Unimportant	**50.0%**	**50.0%**	0.0%	50.0%	**0.0%**	0.0%	0.0%	**100 %**
5. Very Unimportant	**25.0%**	**75.0%**	50.0%	25.0%	**0.0%**	0.0%	0.0%	**100 %**
6. Whole Sample	**57.7%**	**35.9%**	29.5%	6.4%	**6.4%**	2.6%	3.8%	**100 %**
ANOVA Result	F = 0.95; p = 0.44							

We performed a series of t-tests and ANOVA tests to determine any significant differences in executives' propensity to *reevaluate* foreign modes of operations across the control variables. Based on the results, the type of current mode of operations, the location of headquarters, industry, and the size of the local operation have no significant effects on the perceived importance of operating mode reevaluations during the Argentine crisis. Yet, the irreversibility of the current operating mode does have a significant effect on the perceived importance of FMO reevaluations (at p = 0.05, see Table 6). Specifically, executives who viewed their current modes as irreversible tended to perceive the FMO reevaluation as more important than those who seeing their current operating modes reversible.

In the following step, we performed a series of t-tests and ANOVA tests to determine any significant differences in MNCs' willingness to *change* their foreign modes of operations across the control variables. As shown in Table 7, the type of the current operating mode significantly influences a firm's willingness to change their level of resource commitments. Specifically, MNCs exporting to Argentina were more willing to increase their resource commitments in Argentina than non-exporters ($t = 2.34$; $p < 0.01$). MNCs licensing technology to Argentina had a greater willingness to increase their resource commitment in the market during the crisis than non-licensors ($t = 2.34$; $p < 0.01$). MNCs with joint venture operations had a greater tendency to increase their resource commitments in Argentina than those without joint ventures ($t = 1.57$; $p < 0.10$). On the other hand, there was no difference in the willingness to increase resource commitments between owners and non-owners of sole ventures in Argentina ($t = 0.62$; $p > 0.10$).

Table 6. MNCs' Propensities to Reevaluate Their Foreign Modes of Operations– By Irreversibility of Current Mode of Operations

Is the Current Mode Irreversible?	Mean of Perceived Importance of Operating Mode Reevaluation	Number of Firms
Possibly to definitely Yes (1, 2, 3)	2.22 [a]	63
No (4, 5)	2.86	7
t - Value	1.85**	

a. Lower means reflect greater importance of operating mode reevaluation (1 = very important; 3 = neither important nor unimportant; 5 = very unimportant
* Significant at p = 0.10 (one-sided test), ** Significant at p = 0.05 (one-sided test)

Table 7. MNCs' Propensities to Change Their Foreign Modes of Operations– By Type of Current Mode of Operations

Current Mode of Operations	Mean Willingness to Change Resource Commitment		
	MNCs Not Using The Mode	MNCs Using The Mode	t –Value
Exporting	2.86 [a]	2.33	2.34***
Licensing	2.86	2.33	2.34**
J/V	2.87	2.58	1.57*
S/O	2.81	2.68	.62

a. Lower means reflect greater willingness to increase resources (1 = increase greatly; 3 = remain the same; 5 = decrease greatly).
* Significant at p = 0.10 (one-sided test), ** Significant at p = 0.05 (one-sided test),
*** Significant at p = 0.01 (one-sided test)

To further compare the MNCs' propensity to change their level of resource commitments across different modes of operations, we cross-tabulated responses on this variable by the type of current modes (see Table 3). As illustrated, about 41.7% of exporters and 50% of licensors would not change their level of resource commitments given the crisis situation in Argentina; comparable to 54.2% and 36.8% for joint venture partners and sole venture owners. Given their low level of resource commitments, the patience of exporters and licensors could be expected. But these firms also demonstrated a strong willingness to increase their resource commitments in Argentina during the crisis, at a level similar to existing FDI investors. As Table 3 shows (see lines 1 and 2), 8.3 % of exporters and 16.7% of licensors would greatly increase their resource commitments; while 50 % of exporters and 33.3% of licensors would increase their resource commitment by some degree. In contrast (see lines 3 and 4 of Table 3), 4.2% of joint venture partners and 5.3% of sole venture owners would greatly increase their investments, and 37.5% of joint venture partners and 42.1% of sole venture owners would increase their investments by some degree.

The exporters and licensors also displayed a lower willingness to reduce their resource commitments in Argentina during the crisis – their decision to decrease resources could mean a move to leave the market altogether given their currently low level of resource commitments. As shown in Table 3 (lines 1 and 2), no firms currently exporting and licensing to Argentina would decrease their level of resource commitments; therefore, all of them would stay in the country despite the crisis. By comparison, 4.2% of joint venture partners and 15.8% of sole venture owners would decrease their level of resource commitments in response to the crisis (see lines 3 and 4 of Table 3).

With regard to other control variables, the location, industry, size, and reversibility of MNCs' current operational modes do not significantly influence their willingness to change their level of resource commitments during the Argentine financial crisis. Yet, follow-up t-tests revealed significant differences in several pairs of inter-industry comparisons. For example, the mean score for banking and financial firms was significantly higher, i.e., showing a greater willingness to decrease resource commitments, than those of manufacturing (at $p < 0.025$), retail (at $p < 0.05$), and media (at $p < 0.10$) firms. The mean score of health/pharmaceutical firms was also significantly higher than those of manufacturing (at $p < 0.05$), media (at $p < 0.10$), and retail (at $p < 0.10$) firms. Likewise, the mean score for IT/telecommunication firms was significantly higher than that of manufacturing firms (at $p < 0.10$). Finally, the mean score of travel firms was significantly higher than those of the manufacturing (at $p < 0.025$), media (at $p < 0.025$), and retail (at $p < 0.05$) firms. In summary, firms in the banking, IT, health, and travel industries showed a lower willingness to increase, or a greater willingness to decrease, resource commitments during the Argentine crisis than firms in the manufacturing, retail, and media industries.

DISCUSSION

Reevaluation of Foreign Modes of Operations during the Crisis

Regarding our first research issue, most multinational firms indeed recognized a need to reevaluate their foreign modes of operations at the time of the financial crisis in Argentina. This finding partially confirms our earlier expectation based on the contingency perspective of foreign market entry mode decisions. It is also consistent with the calling that during the crisis, companies should collect more information, monitor the changes, and watch for opportunities and threats (Beck 2000, Singh and Yip 2000). Nevertheless, one third of the firms surveyed would not view an FMO reevaluation during the financial crisis as important. If an FMO reevaluation denotes closely monitoring the events and assessing the fit between the operating mode and new market realities, this finding is alarming. Especially unsettling is the indication that some firms (see Table 5) would change their level of resource commitments without seriously reevaluating the evolving fit of their operating modes to the changing environments. Specifically, 10% of the firms viewing the FMO reevaluation as neither important nor unimportant would want to undertake major changes to their foreign modes of operations, while 15% would make some changes (see line 3 of Table 5). Also, 50% of MNCs viewing the FMO reevaluation as somewhat unimportant would make some changes to their FMOs (see line 4 of Table 5), and 75% of the firms describing the FMO reevaluation as very unimportant would make some changes to their FMOs (see line 5 of Table 5).

Willingness to Change the FMO during the Crisis

Regarding our second research issue, according to our findings, the most popular stand among the MNCs in regard to the level of resource commitment during the crisis was to maintain the status quo; and if any changes were to be made, they would mostly be small ones. Collectively, 93.6% of the firms chose either to remain the same level of resource commitments during the crisis or to make small changes to it (see line 6 of Table 5).

There might be three explanations for the tendency of MNCs to make either small or no changes to their resource commitments during the financial crisis. One possible reason is the inherent difficulty in fully apprehending the changes and their exact impacts on a firm’s operations. According to Beck (2000), the period immediately following a catalytic event, such is the case of Argentine financial crisis, should not entail large changes to MNCs’ operations. The rationale is that the firm does not possess enough data about the new environment and its likely impacts to make sound choices about large scale changes. Thus, the avoidance of drastic changes to business operations might be the most sensible plan in the crisis. Our finding confirms this prediction in the context of the Argentine financial crisis.

Another reason could be the expectation among MNCs that the economy would recover from the crisis and the company is to stay put and ride it out, as expressed in the following sentiment by a manager operating in Argentina (Saccomano 2002, p. 60). “Last year it was Turkey. This year it's Argentina. Every year it's a different country. For every multinational you've got ten countries that are thriving, ten that are stagnating and then you've got one like this. It all evens out in the end,” says Steve

Lichter, vice president of international manufacturing operations for pharmaceutical firm Abbott Laboratories.

Inherent in these comments is the realization that they should not change their foreign modes of operations because that is what a diversification strategy entails. To Mr. Lichter, who equates running a global business to managing a mutual fund portfolio, "Argentina's woes barely rate a shrug of the shoulders" (Saccomano 2002, p.60).

Yet another reason why companies want to keep the operations unchanged is to strive to maintain normal business operations and fight disruptions. Here, no change itself is a tough task to achieve (Beaudan 2002). Studies in the crisis management literature, many spurred by the September 11 terrorist attacks on the U.S., have underscored the importance of instituting continuity plans in event of major disasters or crises (Herman and Oliver 2002). It is likely that some of the firms surveyed were heeding to this advice and sought to keep their operations a normal as possible.

Comparisons among Exporters, Licensors, and Direct Investors

Another key finding of the study is that exporting and licensing firms are equally, if not more, patient during the Argentine crisis, when compared to firms involved in FDI. The "cool" nature of FDI has been recognized by many empirical studies (Fan and Dickie 2000, Sarno and Taylor 1999, Thompson and Poon 2000). In particular, the Asian crisis has served to highlight the importance of FDI as a relatively stable form of foreign capital. Our study confirms this attribute of FDI in context of the current Argentine crisis. More importantly, we extend the current research by demonstrating that MNCs engaged in exporting and licensing operations in Argentina are as patient as their FDI peers in Argentina despite the crisis. To the extent that imports and technology transfers are beneficial to its developing economy, the host government should value the confidence of multinational exporters and licensors. In addition, exporters and licensors, given their current low levels of resource commitments, displayed a greater tendency to increase their resource commitments in Argentina (see Table 3).

Willingness to Increase Resource Commitments during the Crisis

Another piece of good news for the host government is the willingness among almost half the firms surveyed to increase resource commitments during the crisis. This favorable attitude across the board could be explained by several considerations. For example, companies traditionally viewing Argentina as an export market might see it now as both a place to sell to and a place to make products in. Faced with rising import barriers and lowering disposable income, and devaluating Peso, current exporters could consider other ways of serving the market. In doing so, according to our findings, 16.7% of the current exporters would consider licensing, 8.3% of them would prefer joint ventures, and 16.7% would favor sole ventures (Table 4). All of these alternatives involve local manufacturing so production and transportation costs can be lowered and trade barriers largely avoided. In the meantime, current licensors willing to change their operational modes uniformly prefer direct investments, with 16.7% of all licensors choosing joint ventures and 41.7% selecting sole ventures (Table 4). Other reasons for increasing resource commitments during the crisis may include the benefits of exporting from Argentina due to the currency devaluation, relatively inexpensive assets and labor costs, potential growth in neighboring economies, access to regional markets through Mercosur, and expectations for reforms and liberalization of government trade and investment policies.

CONCLUSION

Study Contributions

Grounded in the contingency theory of foreign market entry mode decisions, our study enriches the literature with a dynamic perspective by investigating whether multinational companies would reevaluate and change their foreign modes of operations during a financial crisis in an emerging market. While the contingency perspective of foreign market entry mode decisions clearly calls for timely modifications to the operating modes as contingency factors change, no published studies have specifically examined MNCs' propensity reevaluate and willingness to change their foreign modes of operations during an extreme case of host market changes – a financial crisis in an emerging market.

Our study also extends the research on corporate crisis responses in emerging markets by choosing a *Latin American* context and surveying multinational firms during the crisis. Although there have been many studies on general issue of responses to financial crises in recent years, most emphasize host governments' reactions to ongoing and past crises (e.g., Chotigeat and Lin 2001, Clifford and Engardio 2000, Grabel 2000, Kim and Mahfuzul 2002). On the other hand, fewer attempts have been made to draw specific lessons for firms, particularly regarding the strategic responses MNCs should adopt in economic crises and the ways in which they should prepare for future crises (Singh and Yip 2000).

Available firm-level studies are typically based on the *Asian* financial crises of 1997-98, focus on *post-crises* strategic lessons, and mostly deal with multinational companies' responses in relation to FDI activities. No firm-level studies have been conducted in a Latin American context, especially the current Argentina financial crisis. And except for Thompson and Poon (2000), which used data collected during the Asian financial crises to study MNCs' expectations of post-crisis reforms and the role of FDI in economic recovery ASEAN countries, no empirical studies are based on data during the crisis.

The point of separately studying MNCs' reactions during and after a crisis is important because many of the opportunities and threats occurring in crises are likely to be transient in nature, and immediate actions are often warranted. If the MNC waits until the end of the crisis to act, either good opportunities have vanished or damages have been done by passing threats. Furthermore, we investigated the crisis response behavior of multinational firms across all modes of operations (as opposed to just FDI activities). While a number of studies have examines crisis responses of aggregate FDI activities (e.g., by not differentiating between joint ventures and sole ventures) to the 1997-98 Asian crisis (Agami 2002, Barterls and Freeman 2000, Bartels and Mirza 1999, Fan and Dickie 2000, Thompson and Poon 2000), existing research is largely mute on the reactions of MNCs' involved in other modes of operations (such as licensing and exporting) in the country under crisis.

While exploratory in nature, our study represents the first effort at surveying multinational companies *during* the current *Argentine* financial crisis, and studying the MNCs' *propensity to reevaluate and change their foreign modes of operations* during a crisis. Because of these considerations, our study represents a significant contribution to both the research on foreign market entry/operating modes and the literature on strategic responses to financial crises in emerging markets.

Implications for Future Research

From a research perspective, our chosen context of during the crisis has made our findings suitable for longitudinal comparisons with similar crisis experiences in Latin America studied at pre and post crises stages. More systematic, across-country comparisons can also be conducted to replicate our study in different emerging markets to uncover differences in MNCs' propensity to reevaluate and change FMOs in the Argentine crisis versus those in other emerging markets. Future research can also measure executives' perceived magnitude of changes in different factors and combine them with factor importance weights. Such a practice, coupled with a larger sample, may enable hypotheses testing on the effects of various factors on MNCs' preference for specific actions.

Future research can also be undertaken along the following avenues:

- The timing of FMO changes during the crisis and its antecedent factors.
- Conditions under which MNCs would increase or decrease resource commitments.
- Normative theory building and testing where crisis response strategies are linked to corporate performance.
- Case studies and field interviews aimed at gathering more in-depth responses from executives of multinational firms.
- Longitudinal studies of the same companies at pre, during, and post crisis time points.

As a cautionary note, our study is exploratory in nature and it is subject to the same limitations of a typical survey research in the areas of sample size (especially when inter-industry comparisons were conducted), representativeness, and the use of single informants.

Managerial Implications

Our findings help researchers and consultants better understand MNCs' perceptions and behaviors during a financial crisis in emerging markets and give them the opportunity to design more targeted crisis response guidelines. The importance of such guidelines is underscored by the findings that as many as one third of MNCs would not view the FMO reevaluation as important during such a drastic crisis, and that some firms would want to undertake major changes to their level of resource commitments without conducting a serious FMO reevaluation.

A crisis is a poorly structured or unexpected, rapidly occurring, high-risk event that could threaten the safety of MNCs' personnel, stakeholders and assets, and the continued success of operations (Singh and Yip 2000). It is essential for firms to adjust, or at least to question, their operational modes during the crisis. The appropriate crisis responses should start with a close monitoring of the changes in the market (e.g., threats and opportunities), followed by a reevaluate of the suitability of their current mode of operations with changing realities. Such a reevaluation could reveal the need for strategic and structural changes to a firm's operations in the market under crisis.

Through our study, multinational companies can also learn of their fellow firms' or competitors' perceptions and actions during the crisis. Nevertheless, it is up to the individual company to decide whether to imitate or differentiate from other companies in its crisis responses. Crisis effects and opportunities will likely differ for MNCs depending on the industry, and nature of their resource commitments. Multinational firms should recognize these differences and tailor their crisis responses to their particular operations in the market.

Our study findings are also useful to the host government under crisis. One of the major tasks facing the host government is to increase the confidence of multinational companies and stabilize their presence in Argentina. A key finding of the study is that MNCs using all four major foreign modes are patient during the Argentina financial crisis. Host government should, therefore, design policies not only to stabilize the business operations of all foreign companies in Argentina, but also to induce them to make more resource commitments. We also noted that about half of the exporting and licensing companies studied would increase resource commitments, and most of intended resource increases would come in the form of FDI. The host government should therefore seek to understand the unique needs of licensors and exporters in their decisions to increase direct investments.

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