



Foreign market entry mode

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Developing the Industry Internationalisation model

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Abstract

The research on internationalisation goes back a long time. Despite this, there exist no theories on how different industries enter new markets, and by which mode of entry. This dissertation attempts to develop a model with the purpose to explain the differences in foreign market entry mode decision between industries. In order to describe these differences, the foundations of our model are the relative degree of firm specific assets and the need of local representation, and if the industry use the firm specific asset internally or externally.

The suggested model is based upon concepts of prior theories on internationalisation, with a focus on Dunning's Eclectic Paradigm. What separates the proposed model from the Eclectic Paradigm is the need of local representation, which differences are of great importance of different industries. The Uppsala Internationalisation model and Transaction Cost Analysis were also contributing in the development of the model. Propositions were created on each industry to test the validity of the model and the presumed entry mode decision. As this dissertation used a deductive approach, the model was developed by existing theories of internationalisation and then tested empirically by an internet-based questionnaire on companies on the Swedish stock market.

The result demonstrated the applicability of the model. In addition, the analysis contains a detailed description of the findings on each industry, and summarises the model with a combined result. Finally, the conclusions are presented to summarise the work, the practical implementations and suggestions for further research.

Foreword

Kristianstad, November 2007

The bachelor dissertation is the second last assignment before our graduation from Kristianstad University. We have experienced both ups and downs during our work with the dissertation, and are now pleased that it is finished. We found the key for a good result to be hard work, good cooperation and communication. Most of all, we have gotten to test our knowledge in business and found that it is sufficient.

We would like to thank our tutors, Håkan Pihl and Timurs Umans, for their patience and support during the process. A special thanks to Annika Fjelkner whose contributions saved us. We would also like to thank the people from the business world that we interviewed, all participants in our questionnaire, and to our families whose support and proofreading were invaluable. Finally, a great thank you to Martin Hansson's whose expertise made the webpage perfect.

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Chapter 1: Introduction

In the first chapter, we will present the background, problem and purpose of our dissertation. We will present the research questions and briefly discuss the limitations of our approach. In the end of this chapter we show the outline of the dissertation.

1.1 Background

To find a subject for our dissertation we started to think about what we thought had been most interesting during our time at Kristianstad University. As international business students we have always been fascinated by how and why companies enter new markets. We wanted to look further into which mode of entry companies in Sweden prefer to use in different regions, and what factors affect their choice of entry mode. The focus will be on different industries, and if we can see a pattern in their choice of entry mode.

There are several theories that cover the internationalisation of companies. The theories are often well known and widely accepted by researchers and business practitioners. Even if business is constantly evolving, these theories are so well developed that they still describes internationalisation accurately and can be used to develop new theories to describe future ways of internationalisation. The theories are often very specific why companies pursue international trade and relations, reasons for internationalising, which entry modes that exist and especially what factors that influence company leaders' decisions to internationalise. However, when reviewing these theories and reading business literature and scientific business articles, we believe that researchers often refer to companies as a universal unity and not reflecting over that companies are different. Researchers often have several good arguments for factors that influence the companies' decisions but they often fail to mention that factors affect companies differently. We will therefore examine if you can relate internationalisation factors and choice of entry mode to different industries.

We will start our dissertation by reviewing relevant articles by researchers to examine which theories and models exist. We will investigate which entry modes exist and which factors that influence companies. We will try to create a model that explains the companies' choice of entry mode in different industries. Finally, we will then conduct a survey on Swedish SMEs through an internet-based questionnaire to find out what mode of entry they prefer.

1.2 Problem

Factors which influence companies in the internationalisation process often differ between companies. Not all factors are equally important to all companies. Companies from different industries have different impediments and opportunities which make them evaluate these factors differently. These factors might play an essential role when company leaders choose a foreign market entry mode. Even if some researchers acknowledge these differences, the problem is the absence of models and theories that explain why some entry modes are more common and why some factors are more important in a certain industry.

1.3 Purpose

The purpose of our dissertation is to see if there are any differences in the choice of entry mode between industries. If there are differences, we will try to explain them and analyse why they exist. We will examine if there are any existing theories that can explain the relation between choice of entry mode and industry. The purpose is also to develop and test a model that we have created on our own which describes why the choice of entry mode differs between industries.

1.4 Research questions

We have based our research on five research questions:

- What models or theories are used to explain the choice of foreign market entry mode?
- Which factors is most determinant for companies' choice of entry mode?
- How do these factors affect companies in different industries?
- Are there any differences in the industries' choice of entry mode?

- Can a theory or model be created that describes industries' choice of different modes of entry?

1.5 Limitations

The research was limited to small and medium sized companies depending on the resources and time of the researchers. Naturally, we cannot examine companies all-around the world, therefore we have limited our research to companies in Sweden since we all live in Sweden. Another limitation is time, and we are not able to review all research articles that cover this area of business which may lead to us missing some important articles.

1.6 Outline

Chapter 2: Method

In this chapter the choice of methodology and scientific approach are discussed. The chapter will present how primary data and secondary are collected. In addition, it contains a presentation of the chosen theories.

Chapter 3: Theoretical framework

Chapter 3 will present well-known theories from acknowledge researchers that describes how companies internationalise. The theories discuss factors and problems that affect companies' choice of foreign entry mode. These theories constitute the basis of our dissertation and are used to create a new model that describes industries choice of foreign market entry mode. Finally, it will describe the entry modes.

Chapter 4: Creating an alternative model

In this chapter we will present an alternative model based on previous mentioned theories. The model will show which entry mode is the most preferred and used by companies in different industries. The model is based on theories and industries' predicted choice of entry mode and motivated with propositions that will be presented.

Chapter 5: Empirical method

In chapter 5 the method for the empirical research will be explained. This will include the research strategy, the data collection method and the sample. Further, we will discuss the questionnaire, the operationalization and the data analysis. At the end the reliability and validity will be discussed.

Chapter 6: Analysis of the survey

In chapter 6 each industry will be analysed separately. By using the results from the questionnaire and comparing it to the propositions we will see if the propositions and the industry internationalisation model are working. At the end of this chapter we will have a final presentation of the model and if it had to be configured.

Chapter 7: Conclusion

In the last chapter the dissertation will be summarised. The applicability of the industry internationalisation model is discussed. In addition, criticism to the methodology will be presented together with modifications, practical implementations and future research.

Chapter 2: Methodology

In this chapter the choice of methodology and scientific approach are discussed. The chapter will present how primary data and secondary are collected. It also contains a short presentation of the choice of theory.

2.1 Choice of methodology

The purpose of our dissertation is to look at how different industries internationalise, and what factors affect their choice of entry mode. We started by studying previous research on foreign market entry mode, and traditional theories on internationalisation. We found that no complete theories on industries existed, even though different parts from different theories were applicable. However, when well-established theories on a subject exist, a deductive approach is more adaptable than an inductive approach. Saunders et al. (2007) clarifies the difference: “your research should use the *deductive* approach, in which you develop a theory and hypothesis (or hypotheses) and design a research strategy to test the hypothesis, or the *inductive* approach, in which you would collect data and develop theory as a result of your data analysis” (Saunders et al. 2007 p 117).

From the theories we created our own model which we thought could explain how industries enter new markets. The next step was to test the model, which we did by conducting an internet-based survey. We will base an analysis on the results of the survey, and the result will also either confirm or contradict our model.

2.2 Scientific approach

The point of view in which you write a dissertation is called the scientific approach. It could be divided in three parts, each with different approaches:

1. Research philosophy: there are three different research philosophies to be chosen when writing a dissertation: positivism, realism, or interpretivism. We have chosen a **positivistic** approach. When using a positivistic approach the researcher tries to be objective, and collects data in a value-

free way. The aim is to be independent; not trying to be affected or you affect the research. Since we study entire industries the purpose is to generalise our findings, which you try in a positivistic approach. However, the difference to a realistic approach is minimal when the objective is to study the behaviour of a company (Saunders et al. 2007).

2. Quantitative or qualitative data: when studies are quantitative the collected data could be expressed in numbers and figures, and being statistically measurable. Qualitative studies are researches where the collected data could not be quantified and measured in that manner, the focus is more on understanding. We chose a **quantitative** approach by conducting a standardized questionnaire that was the same for all participants. When doing it this way, the result could be analysed and correlated by using statistical programs (Saunders et al. 2007).
3. Explanatory or exploratory purpose: an exploratory purpose tries to find out “what is happening; to seek new insights; to ask questions and to assess phenomena in a new light” (Robson 2002; cited in Saunders et al. 2007). An explanatory study tries to explain the relationship between different variables. We have chosen an **exploratory** purpose as we try to analyse the internationalisation process in a new way.

2.3 Secondary Data: Choice of theory

When reviewing the topic and explanation of internationalisation many theories and models came across. Some theories are more acknowledged than others, and the majority of the theories have extensions by other authors. However, a pattern of the most commonly used theories could be seen. In addition, in alignment with our research purpose, we have chosen the theories that we think could be used to explain the way different industries enter new markets. The theories that we have chosen are:

- **The Uppsala internationalisation model:** This is a classic internationalisation theory. The theory has its emphasis on that a company gradually extends its activities abroad over time and as knowledge

develops, and with that the physical distance to markets increases (Johanson and Vahlne, 1977).

- **Transaction cost analysis (TCA):** This model was developed initially by Coase (1937), and further improved by Williamson (1971). The focus is on the costs of a foreign market entry mode comparative to its objective, what is most efficient and economical (Anderson and Gatignon, 1986).
- **The Eclectic Paradigm:** The firm's advantages in organisation, location and internationalisation of processes influence the choice of foreign market entry mode (Dunning, 1980).

Some of the most important sources in our theoretical framework were articles written by the creators of the specific theories. In addition, we have also studied literature from researchers that have analysed the theories further, and some of the most important extensions.

2.4 Primary Data

We created a webpage on which we published a questionnaire. The purpose was to test the model we had developed, and the questions in our survey were linked to the model. The reason why we chose an internet-based survey was to emphasise the anonymity of the participant, hoping this would increase the number of participants. The online questionnaire makes it possible for the participants to decide themselves when to answer. Additionally, the questionnaire could be interlinked with a program (Excel) making it easier to analyse the results. A letter was sent out to 266 companies on Mid cap, Small cap and First North¹ on the Swedish stock market, with a link to the webpage www.modeofentry.com. On the webpage, the participants could read information about the writers of the dissertation and their background. To get a high response rate a follow-up letter was sent one week after the first letter. To strengthen our model we also conducted personal interviews with present and former high-level executives in different industries (see chapter 5 for details).

¹ The Mid Cap, the Small Cap and the First North are lists on the Swedish stock market. The lists contain small and medium sized companies located in Sweden.

Chapter 3: Theoretical framework

In this chapter we will present the theoretical framework. It will present well-known theories from acknowledge researchers that describes how companies internationalise. The theories discuss factors and problems affecting companies' choice of foreign entry mode. These theories constitute the basis of our dissertation and are used to create a new model that describes industries' choice of foreign market entry mode. In the end we describe different entry modes.

3.1 Introduction

Over the years there have been several theories that try to explain how and why companies internationalize. Since Adam Smith published his book “*The Wealth of Nations*” in 1776, which was first with the conclusion that countries would benefit from trade, several researchers have develop models and theories that could help to analyse the reasons and benefits of international trade. Some of the most acknowledged researchers such as Adam Smith, David Ricardo and Raymond Vernon all have contributed to the research of trade but even if these researchers' theories still have many valid points, we have focused our theoretical review on some newer models. Also, Smith's, Vernon's and Ricardo's theories explain the advantage of trade and reasons for firms to internationalize but since we want to explain how (which entry mode they use) firms internationalize, we have chosen three different models that are well-known. The three models we have chosen were created some years ago and have had the time to be reviewed, analyzed and tested several times. These theories are highly regarded by researchers and are considered to describe the entry mode decision and affecting factors well. We will present the models and their key-points and in the end discuss some limitations of the models.

3.2 Choice of theory

Many researchers have discussed how and why companies choose a certain entry mode. Pan and Tse (2000) states that there are three main schools in this subject. The first school, which consists of researchers such as Johanson and Vahlne, sees operations in foreign markets as risky. They consider the political and cultural

differences between countries and prefer a moderate initial commitment when doing business abroad. They want companies to gradually increase their commitment as they acquire knowledge and experience in that market. Researchers from first school prefer that companies enter new markets with a low risk entry mode such as export and with time increase their involvement by choosing an entry mode with higher commitment (Pan & Tse 2000).

The second school analyse the transaction cost phenomena. Researchers state that companies will internalize operations that it can perform at a low cost and let others perform activities that can be done at lower cost elsewhere (externalize). When a company externalize their activities transaction costs will occur. These costs include amongst other cost of monitoring, controlling and inspecting suppliers and products. The second school's advocates assume that managers consider all entry modes at the same level and that all factors are of equal importance (Pan & Tse 2000).

The third school of thought focus much on location specific factors. John Dunning is one of the most prominent researchers in this area. He state that companies' entry mode decisions rest on three factors, ownership-, location- and internalisation factors. He calls attention to location factors as he believes them to have an increasing affect to managers' entry mode decisions (Pan & Tse 2000).

The three theories we have chosen all have some affiliation to one of the three schools. For instance, the Uppsala internationalisation model belong to the first school researchers and the eclectic paradigm belongs to Dunning from the third school. We will now present the theories and we will return to this discussion later in chapter four when we will create an alternative model that highlight industries entry mode choice.

3.3 The Uppsala Model

During the 1970s two Swedish researchers, Johanson, Vahlne and Wiedersheim-Paul, at the University of Uppsala in Sweden studied the internationalisation process of companies. They created a model to explain the internationalisation

process of firms; and named it the Uppsala model. The model has its theoretical base in the behavioural theory of the firm (Cyert & March, 1963; Aharoni, 1966).

The Uppsala model focuses on gradual integration, acquisition and use of knowledge about foreign markets and operations, and on incrementally increasing commitments to foreign markets (Johanson & Vahlne, 1977). An important aspect of the model is that it is a dynamic model; it describes the internationalisation of a firm as a process. This process is expressed in the model through psychic distance and the establishment chain of the firm; these will be discussed more later. The process evolves with interplay between the development of knowledge about the foreign markets and operations, and an increasing commitment of resources to those markets (Johanson & Vahlne, 1990, in Johansson et al, 1994). The model tries to explain that firms internationalize when they learn more about new markets.

Assumptions in the Uppsala model

-The establishment chain and the psychic distance

As mentioned earlier, the process in the Uppsala model is expressed by psychic distance and the establishment chain (Johanson & Vahlne, 1990, in Johanson et al, 1994). These patterns were noticed when the Swedish researchers studied the internationalisation process for a number of Swedish companies. The first pattern, the establishment chain, means that a company commits to engage in operations in a certain foreign country through small incremental steps. For every new step the commitment increases. The researchers could see that the companies started with exporting and with time they started using sales organisations and in the end their own manufacturing operations. The establishment chain is illustrated in figure 3.1:

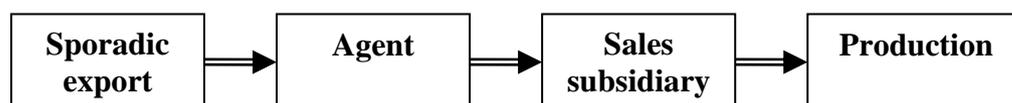


Figure nr 3.1: The Establishment chain

(Source: Own model, based on Johanson and Wiedersheim-Paul, 1975, in Johanson et al, 1994)

The second pattern identified was psychic distance. Firms tend to enter new markets with successively greater psychic distance which often also mean greater geographical distance (Johanson & Vahlne, 1990, in Hollensen, 2001). Psychic distance can be defined as the sum of factors preventing the flow of information from and to the market. Examples are differences in language, education, business practices, culture, and industrial development (Johanson & Vahlne, 1977). The less knowledge a company has about the market the greater the psychic distance and the uncertainty are. This is why companies enter new market where psychic distance and perceived uncertainty is low, often because these markets are easier to understand. When you understand a market it is easier to see opportunities. The best way to gain an understanding and utilize the opportunities of a new market is through experiential knowledge, learned through personal experience in the specific market. Figure 3.2 combines the two patterns, the establishment chain and physic distance, in a model:

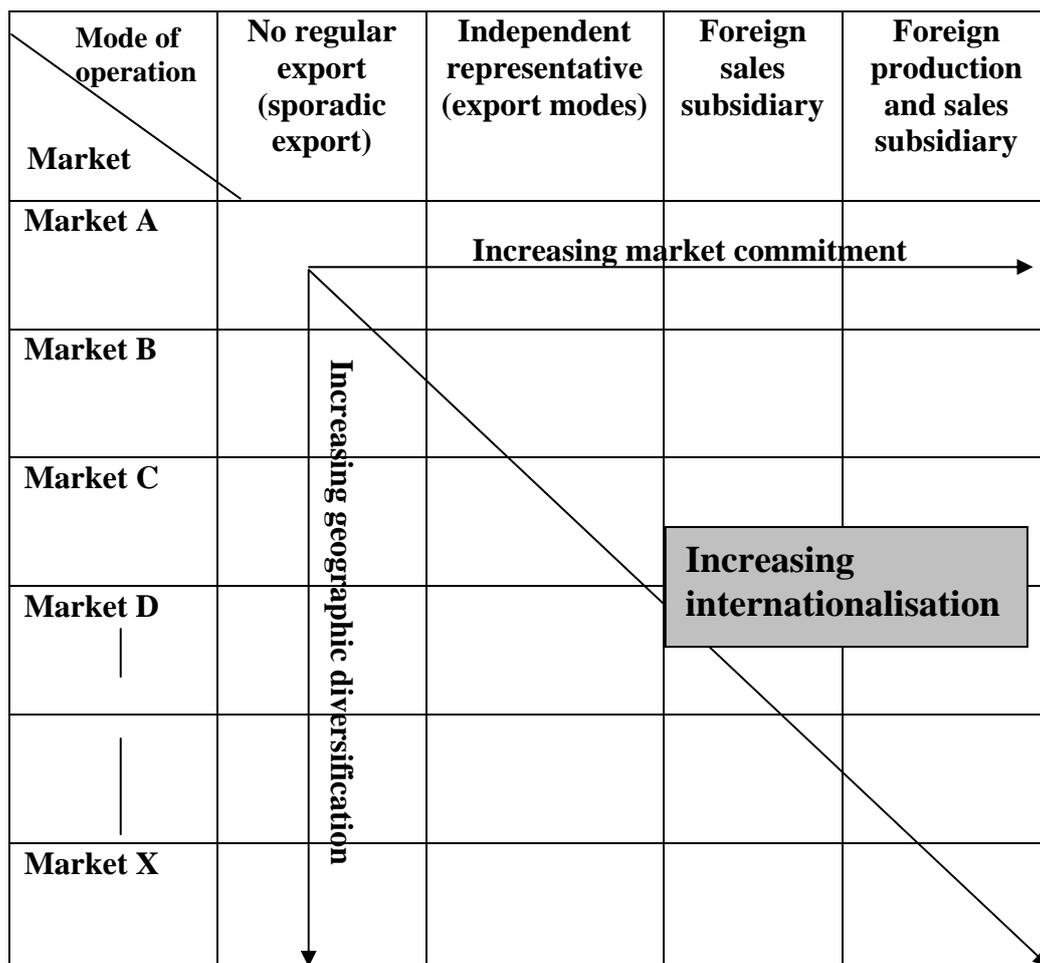


Figure nr 3.2. Internationalisation of the company: an incremental approach

(Source: Hollensen, 1998, p 41)

Three Exceptions

The Uppsala model shows that companies take small and incremental steps when it comes to the market commitment dimension and the geographical and cultural dimension (Hollensen, 1998). However, there are three exceptions:

1. When firms have large resources the consequences of commitments are small. Therefore firms with surplus resources can take larger international steps.
2. When market conditions are stable and homogeneous the firm can gain relevant market knowledge through other ways than experience.
3. If the firm have considerable experience from markets with similar conditions it may be possible to generalize this experience to the specific market (Johanson & Vahlne 1990)

The core concepts of the Uppsala model

-State Aspects and Change Aspects

The model is based on four core concepts: market commitment, market knowledge, current activities and commitment decisions. Market commitment and market knowledge constitute state aspects and current activities, and commitment decisions constitute change aspects. The state aspects are the resource commitment to foreign markets and the knowledge about the market and operations. The change aspects are decisions to commit resources and the performance of current business activities (Johanson & Vahlne, 1977). Market knowledge and market commitment are assumed to affect both commitment decisions and the way current activities are performed. These in turn change knowledge and commitment (Johanson & Vahlne, 1977, cited in Aharoni, 1966). In this way you can see that the four core concepts of the Uppsala model are linked together, affecting each other. This is illustrated on the next page in figure 3.3:

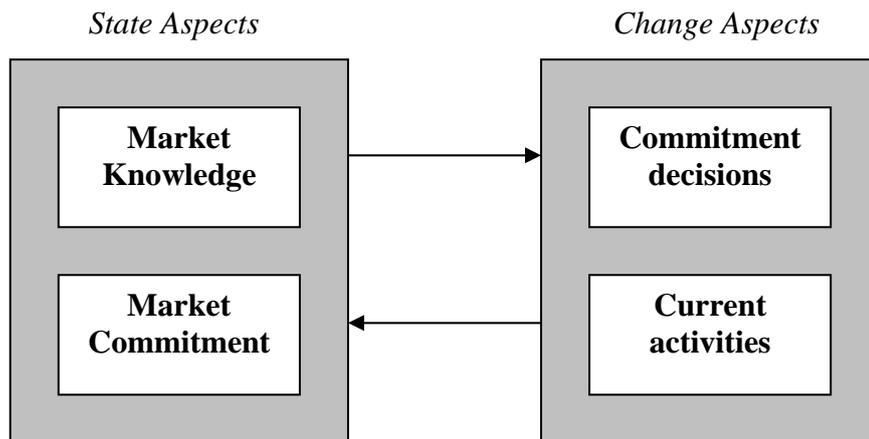


Figure 3.3: Mechanisms of internationalisation – State and Change Aspects

(Source: Johanson & Vahlne, 1990, in Johanson et al, 1994)

The Uppsala model assumes that the firm strives to increase its long-term profit, which is assumed to be equivalent to growth (Johanson & Vahlne, 1977, cited in Williamson, 1966). Another assumption is that the firm is striving to keep risk-taking at a low level. These assumptions characterize the decision making of the firm and become a frame for in which all decisions are taken. The model assumes that the state of internationalisation affects perceived opportunities and threats which in turn influence commitment decisions and current activities (Johanson & Vahlne, 1977). The following section will review the four core concepts:

State Aspects

As mentioned earlier, the two state aspects are composed by market commitment and market knowledge. Market commitment is considered because of the assumption that the commitment to a market affects the firm's perceived opportunities and risk (Johanson & Vahlne, 1977).

Market commitment

The market commitment concept is assumed to be composed of two factors: the amount of resources committed and the degree of commitment, i.e. the difficulty of finding another way to use and transfer the resources. The amount of resources is described as the size of the investment. Resources invested in a particular market can often be considered as committed to that market. The problem arises when the resources can be sold quickly and the financial resources can be used

elsewhere, this is where the degree of commitment comes in. The higher degree of commitment, the more resources in question are integrated with other parts of the firm and their value is derived from these integrated activities (Johanson & Vahlne, 1997)

Market knowledge

An important part of the model is knowledge since any commitment decision has its foundation in the knowledge of the market. The commitment decisions are based on several kinds of knowledge. The model divides knowledge into two parts, general knowledge and market-specific knowledge. General knowledge concerns marketing methods and common characteristics of certain types of customers. Market-specific knowledge is knowledge about the characteristics of the specific national knowledge. Firms look at the opportunities and problems of the market and based on their knowledge they make decisions about what strategy to pursue. The evaluation of the strategies and alternatives is based on knowledge of the market environment and about the performance of various activities (Johanson & Vahlne, 1977).

There are two ways of obtaining needed knowledge. First, the firm obtain knowledge through experiential knowledge that only can be learned through personal experience (Penrose, 1959). Market-specific knowledge is gained mainly through experiential knowledge. Second, the knowledge called objective knowledge can be acquired through studying others and learn from their experience. In the Uppsala model experiential knowledge is emphasized since it is not as easy to obtain as objective knowledge. Experiential knowledge must be gained successively during the operations in the country. Experiential knowledge is particularly important when it comes to connecting with activities that are based on relations to other individuals. Marketing and managerial work are examples of such relations. So when it comes to marketing of complex and software intensive products, experiential knowledge is very important (Johanson & Vahlne, 1977).

At this point it is important to remember that there is a direct relation between market knowledge and market commitment. The model assumes that knowledge is considered to be a resource, the better the knowledge the more valuable the

resource is. If the knowledge is good the commitment increase, especially using experiential knowledge (Johanson & Vahlne, 1977).

Change Aspects

The second part of the Uppsala model is the change aspects. As previously mentioned, the change aspects are decisions to commit resources to foreign operations and the performance of current business activities (Johanson & Vahlne, 1977).

Current Business Activities

Current activities can be divided into three parts. The first part is that the firm acquire most of its experience through current activities, and then use the experience to see openings in foreign markets where they make market commitments. If the needed experience does not exist within a firm they might hire someone to gain the experience. The model separates these kinds of experience into two groups, firm experience and market experience. To get good performance from market activities, both types of experience are needed. The second part of current activities in the model identifies a lag between current activities and their consequences. This lag means that although current activities are implemented it may take time for the consequences to be realized. You have to consider how long that lag will be since time is an important factor deciding how large the market commitment will be. The longer the lag, the higher the commitment of the firm will be (Johanson & Vahlne, 1977).

Finally, when the firms are highly production-oriented there is a low need for interaction between activities and the market environment. This will make it easier to start new operations which are not incremental additions to former operations. Although it should be remember that even production activities are dependent on the general business climate, which cannot easily be estimated in other ways than performance of business activities (Johanson & Vahlne, 1977).

Commitment decisions

The second part of change aspects is decisions on commitment. The decision deals with how much, if any, resources to commit to the foreign market. The model

assumes that the decisions depend on which alternatives that exist and how they are chosen. Decisions are made as a response to opportunities and problems on the market. It is through market and firm experience that a firm can deal with problems or opportunities, and it is through the activities of the firm that you gain experience. To sum up, the state aspects and change aspects of the model are connected through knowledge, activities experience and commitment.

Existing market risk and uncertainty also play important roles when it comes to decision on commitment to a specific market. The less a firm understand a market the greater the risk will be to enter that market. A firm will make commitments to a market as long as they felt that the risk is tolerable. The commitments are made in small steps due to market uncertainty (Johanson & Vahlne, 1977).

Limitations of the Uppsala model

The Uppsala model is one of the most famous models for explaining the internationalisation processes of firms. The model has its strengths in the simplicity and researchers have been careful with adding more variables, but in this simplicity lay also the models weaknesses. Forsgren 2002) state “It has been argued that the model builders apply a more narrow interpretation of learning than that allowed by literature, which limits the ability of the model to explain certain forms of internationalisation behaviour” (Forsgren, 2002, p 257).

After many empirical tests related to the Uppsala model, the studies have shown that the internationalisation process is not valid for service industries. Other studies have shown that firms lately seemed inclined to leap-frog stages on the establishment chain, entering markets with higher psychic distance early in the internationalisation process (Hollensen, 1998). Nordstrom (1991) showed that Swedish companies on average preferred to enter countries like the United States, the United Kingdom and West Germany before entering the neighbouring Nordic countries. According to Nordstrom a reason for this leap-frog behaviour could be that the internationalisation process as a whole seems to have sped up (Nordstrom, 1991). Porter (1980) states that the world has moved towards homogenisation, and the reason is technology. This homogenisation helps companies reduce

uncertainty when entering new markets since it lowers the psychic distance, making it easier to “skip” steps on the establishment chain (Porter, 1980).

Another reason that the internationalisation process has been speeded up is that it has become easier for firms to obtain knowledge and experience. Through universities and management training centres, firms are able to obtain better knowledge in a faster and more efficient way (Nordström, 1991). Firms can in this way hire people with knowledge in international business instead of developing the knowledge within the firm. In addition, the model is often criticised for being too deterministic (Reid, 1983, Turnbull, 1987, in Hollensen, 1998). This means that the model does not leave room for any variation in its explanation of incremental movement between stages. An example can be a firm with great deal of experience that keep on exporting instead of taking the next step on the establishment chain. Also the lack of possible variation makes the model inadequate when explaining firms that leap-frog stages. Another important criticism of the Uppsala model is that it ignores market potential and competitive conditions in the explanation of the model. The internationalisation process is reduced to the firm’s internal resources, market knowledge and experience from foreign activities.

3.4 Transaction Cost Analysis (TCA)

“Transaction cost analysis is an interdisciplinary approach to the study of organisations that joins economics, organisation theory, and aspects of contract law” (Williamson, 1981, p 573). Oliver Williamson is the spokesperson of transaction cost economics in the modern age, but the idea that the transaction should be the basic unit of analysis was first proposed in 1934 by John R. Commons (Williamson, 1991). Ronald Coase (1937) breached new ground in the paper called *The Nature of the Firm*. He challenged the existence of price mechanisms as coordination and the purpose of the firm, and he reached the conclusion that the cost of an additional transaction for the firm must be equally performed within the firm as on the market (Coase, 1937). Coase meant that “firms and markets are alternative forms of organisation for managing the very same transaction” (Williamson, 1996 p 151). Other significant contributions on transaction cost economics have been made by for instance Chester Barnard

(1938), Friedrich Hayek (1945), and James Thompson (1967). In the words of Williamson: “a deepening awareness of transaction cost issues marks the progression of each of the literature” (Williamson, 1981 p 552).

A transaction is defined as “when a good or service is transferred across a technologically separable interface”, and it has three characteristics: frequency, uncertainty and asset specificity (Williamson, 1981). Arrow (1969) defined it as the “costs of running an economic system” (cited in Williamson, 1991). Some examples of a transaction are the commission you pay when selling or buying a stock, or the costs above and beyond merchandise you buy, some would call it the cost that arise due to institutions. The definition of a transaction is the largest disadvantage of the transaction cost analysis; it is hard to put your finger on what it is. The criticism on the theory will be reviewed later in this section.

Transaction cost analysis has been found useful in explaining which mode of entry to use when entering a new country. TCA makes the assumptions that markets are competitive, and that a low-control entry mode is the default choice (Whitelock, 2002). Williamson (1991) emphasise the importance of asset specificity, with the implication at which cost, high or low, an asset could be transferred or used in another way than intended. Williamson divides asset specificity in:

1. site specificity
2. physical asset specificity
3. human asset specificity
4. brand name specificity
5. dedicated assets
6. temporal specificity (Williamson 1991)

When reviewing TCA the assumptions on bounded rationality and opportunistic behaviour cannot be overlooked. Bounded rationality is when a situation gets too complicated our senses have problems to interpret the situation, and rationality is best bounded by the company. Opportunistic behaviour is the fact that a person will work with his or her best interest in mind, the solution is as with bounded rationality control (Williamson, 1985).

Zhao and Decker (2004) argued that the analysis of transaction cost (TCA) was first proposed by Anderson and Gatignon (1986) to explain economic problems when asset specificity is high. Anderson and Gatignon found that companies choose foreign market entry mode that maximizes the efficiency of long-term risk adjustment. The company must be able change its entry mode efficiently and to a minimal transaction cost (Zhao and Decker, 2004). The efficiency of the entry mode that the company chose depends on the optimal degree of control, and four different aspects of control:

1. transaction-specific asset: specialized investments to one or some users
2. external uncertainty: the entrants external environment
3. internal uncertainty: the entrants incapacity to measure performance
4. free riding potential: receiving benefits without associated work

An example of a high-control mode of entry is wholly owned venture. Franchising is a medium-control mode, and some licensing agreements are examples of a low-control mode of entry (Anderson and Gatignon, 1986). Information from and research on the four aspects of control could be used when trying to create a model for industries' different choice of market entry mode:

1. Transaction-specific assets: proprietary knowledge generates from research and development in a company. Research has shown that proprietary knowledge faces the classical problem of information; the buyer cannot know what the knowledge is worth, and the solution is a high level of control. Stopford and Wells (1972) implied "that firms tend to reserve proprietary knowledge for entry vehicles they control completely" (cited in Anderson and Gatignon, 1986 p 11). Lilien (1979) suggested that when an industry is competitive and a special mode of entry is most efficient all firms in that industry used the same efficient entry mode. Coughlan and Flaherty (1983) found that high control is more used for firms in technically-intense industries. Another aspect on transaction-specific assets is that it is difficult to use low-control entry modes for activities and knowledge that have bad structure and is hard to understand. Teece (1976) found that the cost of a firm's first activity abroad is much

higher than the consequential activities, this because the activity is hard to understand. Wilson (1980) found that a company that has simple products use a low-control mode of entry, while complex products demand a high-control entry mode (cited in Anderson and Gatignon, 1986).

Customized products to a customer demands an entry mode with high-level of control. Products that are customized needs significant local knowledge, and relationships between the buyer and supplier must be established. Johanson and Vahlne (1977) propose that a people-intense activity such as management consulting and banking demands a high-control mode of entry.

According to the Uppsala internationalisation theory a firm should demand a less-control mode of entry when the product class is more mature. Williamson (1979) argues that older technology demands lower control. Bivens and Lovell (1966) propose that the expected gain from a mature product is lower than from a new product, and that firms with new product have more bargaining power (cited in Anderson and Gatignon, 1986).

2. External uncertainty: the unpredictability of the firm's environment could be minimized by avoiding ownership, but the efficiency of entry modes are hard to predict. Naturally, in uncertain situations control is more desired. Some examples of external uncertainty are the political and economic condition in the given country. The TCA model proposes that in an unstable market a low-control entry mode facilitates the commitment, and the feasibility to change partner or renegotiate a contract. However, an amplified combination of country risk and transaction-specific assets demands a high-control entry mode.
3. Internal uncertainty: when good measurements of output are not available or the affiliation between input and output are unclear a firm has problems to assess its employee's performance. Internal uncertainty makes control more sought-after and the firm has to find new ways to measure performance, for instance monitor inputs or create incentives. A difference

exists between domestic and international environment, entrants in an international market has harder to surmount internal uncertainty. However, the entrant in a non-competitive industry may not reflect the degree of control with international experience (Anderson and Gatignon, 1986).

A variety of internal uncertainty is a sociocultural distance, the difference between home and host country, and it is a subject where researchers take different sides. One way to look at sociocultural distance is that the greater the difference is the lower degree of control a company should require. An alternative is that the firm should demand ownership and do things their own way when the sociocultural difference is high. Transaction cost analysis proposes that sociocultural distance makes internal uncertainty high and that transaction-specific assets emerge since employees needs to be trained when the company enter a foreign market. Anderson and Gatignon suggest that both low-control and high-control modes are more efficient than intermediate levels; low-control avoids lock in-situations but some specialization is lost, and high-control creates specificity but must be managed (Anderson and Gatignon, 1986).

When a specific country is the object for foreign companies the country nationals gain skills and education. Over time the nationals will posses management skills over a wide basis, and a new entering company could use existing workers in business situations and benefit from their previous acknowledged skills. The impact is that the entrant does not need a high-control mode when entering the country; they could use a low-control entry mode such as licensing (Anderson and Gatignon, 1986).

4. Free-riding potential: there is always a risk of free-riding, receive benefits without the costs, in all business units in a firm. The solution to free-riding is high control, subsequently an entry mode offering higher control. Research has found that different things affect the potential for free-riding, for instance a more standardized product is more vulnerable, and brand value increases the demand for control (Anderson and Gatignon, 1986).

Limitations of the transaction cost analysis

Even though transaction cost analysis is one of the most common used theory on the research of foreign market entry modes it is not perfect, some criticism are:

- Transaction costs are both difficult to define and measure.
- The purpose of transaction cost analysis is to be a foundation of the decision-making on which entry mode to choose, but transaction costs could only be measured after the use of a certain entry mode.
- Since different researchers have made different versions and extension of TCA the theory could be seen as out of date.
- Ghoshal and Moran (1996) found the theory to have too narrow assumptions of human nature. They also question why the theory has been immune to aspects of social control.
- Hollensen (1998) argues that the theory neglects internal transaction cost; that no friction occurs within the firm (Hollensen, 1998).

3.5 Eclectic paradigm (OLI model)

The eclectic paradigm, also known as the OLI theory, was originally created by John H Dunning. The theory was presented for the first time at a Nobel symposium in Stockholm in 1977. Dunning developed the model and published his first presentation of it in 1980. He continued to further develop the theory in publications in 1988, 1995, 1998 and 2000.

Dunning has used key points from other researchers and combined them in order to create the OLI model. Raymond Vernon's product life cycle theory (1966) explains why companies may choose to enter new markets. He argues that when a product mature in its domestic market in some years, the demand for the product in other markets raise. This makes it worth wile for a company to serve new markets. It also makes it interesting to produce in other countries as they can have location-specific advantages such as low labour cost and favourable tax-regulations. Dunning also accept the internalisation theory which argues that it is difficult for companies to use a contractual entry mode, such as licensing or

franchising, to profit from their firm-specific assets (know-how) due to market imperfections.

The OLI theory determines three advantages that Dunning argues are vital for a company's entry mode decision. Ownership advantages or firm-specific assets are advantages or assets that are exclusive for the firm and assets that no competitors possess. The second advantage is location advantage. It is when there are favourable factor endowments in foreign markets that make it profitable to pursue foreign production. The third advantage is internalisation advantage which means advantage that makes it more profitable for a firm to transfer its firm-specific assets to other locations within the own organisation instead of licensing it (Dunning, 1980). The more of these advantages a firm possess, the more likely it is that a firm pursue an entry mode strategy that ensure a high level of control such as a wholly owned subsidiary (Decker, 2004).

- ***Ownership advantage***

Ownership advantages are advantages that are specific to the firm. It can be special know-how, brand name, size and management skills and experience. *“A firm's asset power is reflected by its size and multinational experience, and skills by its ability to develop differentiated products”* (Argawal & Ramaswami 1992). There are two types of ownership advantages, basic or general ownership-specific and additional ownership-specific. General ownership-specific are advantages that a firm can create for itself or acquire from other firms or institutions. This can be technology, organisational skills and brand name. These advantages are not exclusive either to international or multinational firms (Dunning, 1980). However, a firm must also possess additional ownership-specifics to outweigh the cost of operating in a new environment (Hirsch, 1976). These advantages can only be reached if a firm is operating in another international market than its own domestic market. This can mean diversifying the firm's investment portfolio in order to reduce investment risk. It will also enable the firm to transfer funds between countries with different currency in order to take advantage of fluctuations in exchange rates (Rugman, 1979). A company should also pursue parallel production

to minimize the effect of instabilities in one market such as strikes or other political situations (Dunning, 1977).

- ***Location advantage***

Location advantages can be factor endowments such as land, labour and capital that are only present in some geographical areas. The advantages do not only have to be traditional such as natural resources, low cost labour and market proximity but it can just as much be tax regulations and other favourable legal or political policies (Dunning, 1980). Location-specific advantages are different in some locations but are available to all actors (firms) that are present in that market (Dunning, 1988). Location specific advantages can be used in both the local market as the company can adapt to the culture and environment and be able to serve the local customers. It can also be to use the low-cost advantage in order to produce product for other markets to a lower cost.

- ***Internalisation advantage***

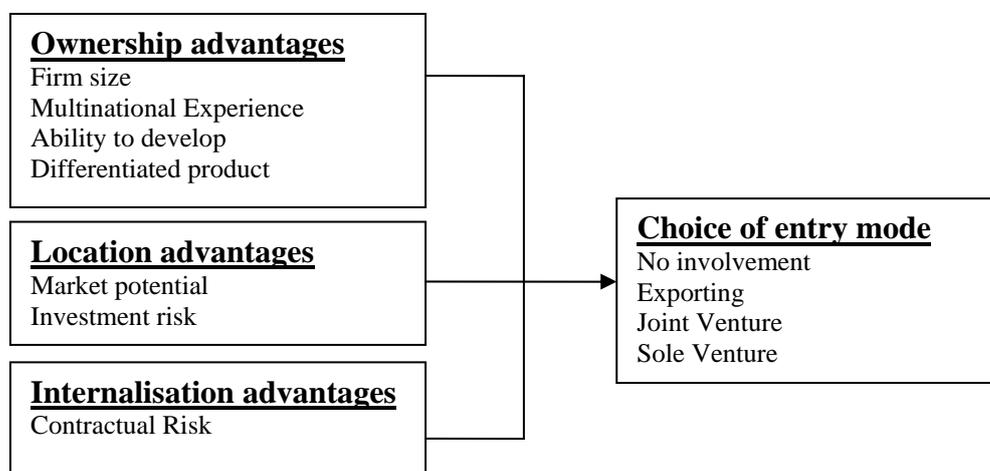
Internalisation is when a firm transfer its ownership advantages across borders within the company's own organisation instead of externalizing it by licensing or selling it to other companies (Dunning, 1980). When a company internalize its knowledge it tries to avoid cost and risks that can occur when they externalize it. It reduces the risk that contractual entry modes, such as licensing and franchising, bring which also leads to a reduction of control costs. When companies internalize their ownership advantages, transaction costs will arise. The company will have to evaluate the transaction cost in order to see if it is profitable to internalize. If internalizing should be profitable it needs to be lower than the cost of externalizing such as cost of control and negotiation costs.

Dunning discuss why companies do not choose to externalize their know-how and management skills by licensing or selling it. One of the main reasons for a firm to internalize its ownership advantages is that it can avoid market imperfections or take advantage of them .*“Market imperfections arise wherever negotiation or transaction costs are high”*

(Dunning, 1980). Market imperfection can be uncertainty over price, availability of supplies and the lack of control. Companies also prefer to internalize when a host country have favourable legal or political policies.

Inter-relationship between factors

It is important to understand that even if Dunning explains each advantage separately, they all are inter-dependent of one another. When deciding on an entry mode, companies must analyze all of their advantages. Argawal & Ramaswami discuss the inter-relationship between the advantages. They state that firms would prefer an investment mode, such as wholly owned subsidiaries, if it is a large company with high multinational experience (ownership advantage) in countries that have higher market potential (location advantage). They also notice the inter-relation between internalisation advantage and ownership advantage. Firms that have valuable ownership advantages tend to choose an entry mode with high control when entering markets with high contractual risk (Argawal & Ramaswami 1992). The above examples show how the different advantages relate to each other. In figure 3.2 you can see how the advantages inter-relate.



Source: Argawal & Ramaswami (1992, page 5)

Figure 3.4: A Schematic Representation of Entry Choice Factors

Limitations of the eclectic paradigm

Some limitations of the eclectic paradigm is that even though it consider different variables and how they are inter-dependent of each other, this is also one of the limitations of the theory. It is difficult to analyze how the advantages inter-relate.

However, the most common critique to the eclectic paradigm is that it is a static theory. It explains how firms use their existing assets in order to enter new international markets and choosing an optimal entry mode but it does not explain how firms may use its advantages in order to create future assets (Dunning 2001).

Another critique is that the model tries to consider all important factors that has an impact on the choice of entry mode but fails to strategic factors among others (Argawal & Ramaswami 1992).

3.6 Modes of Entry

There are several ways to enter a new market, from low commitment to high commitment. The difference is in the control and risk aspect. Most researchers divide the entry modes in categories. In this dissertation the following classification has been used: Exporting entry mode, Contractual entry mode and Investment entry mode. These entitlements will be used repeatedly throughout the rest of the dissertation. Industries' choice of different entry modes will be analysed by using these entitlements (see table 4.1). The following part will explain each part separately.

3.6.1 Exporting entry modes

One way of entering a new market is to export. Many firms, especially manufacturing firms often begin with exporting when trying to expand to other markets. (Hill, 2007) There are several advantages and disadvantages with exporting as entry mode.

Advantages

There are two main advantages with export:

- Export is a cheap way of entering new markets. Firms that pursue an export entry mode escape the financial risk with establishing manufacturing operations in markets that they have low knowledge and experience of (Hill, 2007).
- Companies in some industries try to achieve experience curve and location economies in order to lower their production costs. This means that in

order to decrease costs companies can produce large volumes of products in order to spread the fixed costs on a large volume. The employees also create new and more efficient ways to produce which leads to a higher productivity. If companies serve their global market from a few locations and export their products, they can achieve experience curve economies. Firms that export can choose to produce the optimal location for their specific production and serve the global market from that location. Then they will achieve location economies (Hill, 2007).

Disadvantages

There are of course some disadvantages of exporting. If a company wants to realize location advantage it has to produce at the optimal location. Firms that export often choose to produce in its home country. But sometimes the optimal location is abroad and then they fail to achieve location economies.

Some products are unprofitable to export due to their value-to-weight ratio. If a product has a low value-to-weight ratio it means that the products value is low in relation to its weight which results in high transportation cost in relation to the products overall value. Also the host country can have tariffs that prohibit trade or at least makes it unprofitable to export to that country (Hill, 2007).

3.7.2 Contractual entry modes

Contractual entry mode is an entry mode where one company reach some form of agreement with another part that enables them to use the firm's specific advantage. There are three types of contractual entry modes. Licensing, franchising and joint venture all contain some form of a contractual agreement between the partners.

Licensing

Licensing is when one firm (the licensor) grants another firm or individual (the licensee) the right to use its firm specific assets such as trademark, technology or design under a certain time period. In return the licensee will pay a royalty fee on their profits to the licensor. The main advantage of a licensing agreement is that the licensor do not need to carry any investment costs in order to get their product

into new markets. The licensee usually puts up the capital needed to introduce the product at the host market. It is a cost efficient and low risk entry mode for the licensor (Hill, 2007).

Disadvantages

When a company license its firm specific assets, it will lose control over marketing and manufacturing. It will then fail to achieve experience curve economies and location advantages. Another disadvantage of licensing is that it is connected with high risk to license firm specific assets such as technological know-how. There is always a risk that the licensee uses the know-how in order to develop new, similar products that can compete with the licensors products. This risk can be reduced if the companies can reach god agreements (Hill, 2007).

Franchising

Franchising is a similar entry mode compared to licensing. It also involves one company (the franchiser) who lets another company or individual (the franchisee) the right to use its firm specific assets. The difference between licensing and franchising is that in a franchising arrangement, the franchiser helps the franchisee with operational tasks and supports the franchisee's business. The franchisee also has to follow strict rules as to how they do business. Franchising is used mostly by service companies. The advantages of franchising are similar to the ones in licensing. The franchiser does not need to invest and carry any financial risk as the franchisee puts up with the needed financial investment (Hill, 2007).

Disadvantages

The main disadvantage with franchising is that the franchiser has difficulties to secure a high quality level on their products/service. The franchiser wants the franchisee to nurture their brand name at it can arise cost of control to the franchiser (Hill, 2007).

Joint venture

A joint venture is when two or more firms establish a new firm that is jointly owned, but sometimes one company has a majority share. The main reason to use a joint venture as entry mode is that the companies share the risk and costs

amongst them. But there is also the benefit of entering a market with a company from the host country as they have experience of doing business in that specific country. The local alliance partner has a firsthand knowledge of the political and cultural system in the host country. In some countries, this is the only entry mode possible for companies due to political and legal policies that prohibit foreign ownership (Hill, 2007).

Disadvantages

There are several disadvantages with a joint venture. As in every partnership there is a possibility that friction will occur. It can easily be conflicts in a joint venture in questions of investments and corporate goals. There is also the possibility of a power struggle in order to gain control. Joint venture also has some disadvantages similar to licensing as it can reduce the ability to achieve experience curve economies and location advantages. The risk of losing control of the company's specific assets such as technological know-how may also occur (Hill, 2007).

3.7.3 Investment entry modes

When entering a new market a company has the option to establish a wholly owned subsidiary. This means that the company owns 100 percent of the stock in the foreign firm. In turn, a wholly owned subsidiary could be done in two separate ways: Greenfield investment and acquisitions (Hill, 2007).

Researchers have acknowledged both advantages and disadvantages of this investment mode. A wholly owned subsidiary reduces the risk of losing control over special competencies. Furthermore, it increases control over the operations in the country. A wholly owned subsidiary may facilitate the situation when a company strives for a global strategy. For example when producing units is located all over the world to gain cost advantages. Finally, a wholly owned subsidiary gives the firm 100 percent of the profits. The largest disadvantage of this entry mode is the cost of capital; it is the most costly mode of entry option. Another big disadvantage is the cultural clashes that may occur. It is impossible to predict how the relationship between the two firms will work out (Hill, 2007).

Greenfield investment

When building a new business unit from the ground, the biggest advantage is that the company can establish it according to their own preferences. When choosing this alternative you avoid cultural and organisational issues, and functional routines. However, Greenfield ventures are slower to establish. The risk is also higher, but less risk for unexpected events. Another disadvantage of Greenfield investment is the limited market potential if a global competitor enters the same market through an acquisition (Hill, 2007).

Acquisition

An acquisition could be the best way to match a competitor or build a presence in a market, since they are fast to implement. An additional reason could be to obstruct competitors, i.e. to buy a company before any of your competitors buy it. An acquisition could be seen as less hazardous since you are buying a known profit and revenue. Moreover, you could get tacit knowledge about the market that you otherwise would not encounter. Despite all facts about the advantages of an acquisition research has shown that in most cases it fails to create value. The reasons could be that the company pay too much for the assets of the acquired firm. Furthermore, we have mentioned the cultural clashes earlier, but also the attempt to create synergies between the two firms could have the opposite effect (Hill, 2007).

3.8 Summary

The table on the next side summarises the three theories:

Table 3.1: Summary of the three theories

	The Eclectic paradigm (OLI model)	The Uppsala model	Transaction cost analysis (TCA) model
Unit of analysis	The firm	The firm	The transaction or set of transactions
Basic assumptions about firms behaviour	The eclectic paradigm states that a firm's entry mode decision is determined by the composition of three advantages. The more of these advantages a firm possess, the more reason a firm has to pursue a high control entry mode.	Based on a step by step decision-making process with influence from competitive market factors and on behavioural theories. A gradual learning-by-doing process.	There are always transactional difficulties, friction, between buyer and seller in the real world. The friction is mainly caused by opportunistic behaviour. Managers do not always act fairly, put self interest first.
Explanatory variables affecting the process development	A firm's ownership- location- and internalisation advantages.	Psychic distance between the home market and the international market. The firm's market knowledge and commitment to that market.	When a transaction is characterized by; asset specificity, uncertainty (internal and external) or frequency of transaction, the transaction cost and transactional difficulties will increase.

Chapter 4: Creating an alternative model

In this chapter we will present an alternative model based on previous mentioned theories. The model will show which entry mode is believed to be most used by companies in different industries. The model is based on theories, industries' predicted choice of entry mode and it is motivated with propositions that will be presented in this chapter.

4.1 Introduction

As mentioned earlier, there is a need for a model that shows how companies in different industries enter new markets. Even if some companies in the same industry use different entry modes, we believe that a majority of companies in the same industry use the same entry mode. In the theories we have presented in chapter three, several factors affecting the foreign market entry mode decision was enlightened. We have chosen some of these when we tried to create a new model. As we will discuss later in this chapter, we have focused on several aspects from the eclectic paradigm by Dunning. The new model is supposed to show how all industries choose to enter new markets. Therefore it is necessary to choose factors that on some level have an impact on all companies' choice of entry mode. It is also important to analyse the industries that we investigate and discuss what characteristics each industry have and how each factor in the model affect the companies in the industry. We have a thorough discussion on this later in this chapter. We begin by discussing on which scientific basis our model is created.

4.2 Scientific influences – Deciding factors in the model

We discussed earlier in chapter three that there are three main schools of thought concerning how companies shall approach the decision of foreign market entry mode: Uppsala, TCA and the Eclectic paradigm. When we were creating our own model, we thought that it was necessary to decide which scientific approach we believed to be most accurate in today's business climate. All theories have good arguments and ideas that describe the complex decision managers have to face when entering new markets. But one factor in particular separates the different schools, namely location. The third school thoughts about location factors and

their importance in the future are interesting and it seems to fit well with today's global economy. The first school, which regards the internationalisation process as a risky operation due to political and cultural differences, is still valid but, today the market is more global than it was when the Uppsala model was created. The access to information is almost unlimited today which affects managers' way of doing business. There are always some aspects in a new market or country that are unknown but managers have so much information to access that markets are rarely completely unknown. The political situation is also more predictable nowadays when more and more countries have democratic societies. That is why we believe that even if a foreign market entry always is connected with some risk, the amount of risk has decreased for some markets. As the eclectic paradigm considers the transaction cost theory, it absorbs some of the important elements that are the second school's key features. As we believe location factors to be very important in the global marketplace and will continue to be so, we are followers of the third school's thoughts of international business. We have based our model on the eclectic paradigm and many of the thoughts and factors we consider in our model are directly from it.

We consider three main factors that we will present in detail later in this chapter. The three factors are firm specific assets, location aspects and companies' choice on how to use their firm specific asset, internally or external. We also mention that when companies are choosing a contractual or investment entry mode, the level of commitment to the new market gradually increases. This discussion is borrowed from the Uppsala theory which we find to be accurate in this aspect of entry mode choice. As we have argued much for the importance of considering location factors, it is one of the factors we emphasise on in our model but we have a different approach to it than the one Dunning has in his eclectic paradigm.

4.3 A new approach - The Industry Internationalisation model

The industry internationalisation model has three parts:

- Firm specific assets (FSA)
- How companies use their firm specific assets
- Need of local representation

We believe that these factors combined can indicate which mode of entry an industry would prefer. We will describe each of the three factors in detail later. Even if we focus on these factors and these are the ones in our model, there are still some factors that are too important to neglect. When we later in this chapter review every industry, we create propositions based on the discussion about the industry. These propositions will be based partly on the three factors mentioned above but also on some other factors. Risk and control are two factors that are constantly mentioned in researchers work. When a company has a high degree of FSA, it has an incentive to control it carefully in order to protect the FSA from competitors. When companies choose to have high control the risk will increase as it often involves large financial resources in order to have high control. This discussion is common in this field in business. Transaction cost analysis discusses the control problem comprehensively. Anderson and Gatignon (1986) exemplify which degree of control a company get when it is choosing different entry modes. We also presented this in chapter three when discussing entry modes in detail. In the TCA theory it is stated that the control aspect is so important, that we have to consider it even if it's not a determining factor in our model.

We introduced the value to weight ratio on page 33 when we presented the different entry modes. This factor is also used to analyse the different industries. It is difficult to analyse exporting entry modes without using this factor as it is one of the most determining factor when you consider export as entry mode. We have also used an argument from the Uppsala model. In our model we show what level of commitment a certain entry mode has. In the analysis of the industries we will repeatedly use this entitlement as we believe that it clearly shows that some entry modes require substantial resource commitment. By this we have tried to capture some important factors that are mentioned in all of the theories in the theoretical framework.

The decision of which entry mode to choose is best seen in a table comparable to Macharzina's (2003) interpretation of the eclectic paradigm. Macharzina focused on the three parts of the eclectic paradigm (ownership, internalisation and location advantages) and how it affected the market entry mode decision. The industry internationalisation is, as mentioned earlier, influenced by Dunning's eclectic

paradigm theory but has another angle and approach. The following table shows how Macharzina interpreted Dunning's theory, but table 4.1 is configured to fit the industry internationalisation model:

Table 4.1: Basics of the Industry Internationalisation model

Influences / Mode of Entry	Firm specific assets	Internal / External use of FSA	Need of local representation
Investment mode	<i>Existing</i>	<i>Internal</i>	<i>Existing</i>
Export mode	<i>Existing</i>	<i>Internal</i>	<i>Not existing</i>
Contractual mode	<i>Existing</i>	<i>External</i>	<i>Not existing</i>

Returning to Dunning's ideas, the same approach is used for the industry internationalisation model, when all three parts are met and needed a higher commitment entry mode should be chosen. The same approach is then used in order to make propositions about each industry, meaning that each industry will be analysed on these three aspects of the industry internationalisation model. The entry modes have been divided as previously explained into export, contractual and investment entry mode. The following part will explain each of the three parts separately and how they affect the entry mode decision:

- **Firm specific assets (FSA):** all companies have a specific asset. It could be know-how, experience, brand name, unique products and so forth, which is something the company want to control. However, in relation between industries a company's specific asset may not be that important. For instance the healthcare and IT industry could be seen to have a higher specific advantage and knowledge since it demands much know-how, experience and research and development to succeed in the industry. When comparing these two industries with the transport industry, in which all that is needed to start up a business is assumedly a lorry. A company in the healthcare and IT sector are much more technologically advanced, demands more resources and is more difficult to set up. The FSA

influences all three entry mode categories in the market entry mode decision, but not as much as the two following parts.

- **Internal/External use of FSA:** when a company has firm specific assets and advantages it has two options how to handle it. The company could both use the FSA internally and keep the knowledge within the company, or externally and let the knowledge be used by others. In turn, when choosing to use the knowledge internally a company has two options. The company could choose an export entry mode and export the knowledge. This means that the company supplies the whole market from often one centralized location. The option minimizes the risk but also the commitment. Even though some acknowledged researchers mean that when exporting you let an external partner transport the products, we believe that the companies FSA still stay within the company. The other option is to use an investment entry mode, and choose between Greenfield investment and acquisition. Greenfield investment is when the company starts up a new subsidiary from the ground, and acquisition is when the company acquire an already established company or facility. The investment entry mode requires much more financial resources, it involves the highest risk but it gives the company total control and could assumedly lead to higher profits.

When choosing to use the knowledge externally the company use a contractual entry mode. The option is to either license or franchise. When licensing a company has no control of what the licensee does, but it allows the company to enter a new market without risk and still increase profits. Franchising works in a similar way as licensing but involves higher control for the franchiser. The franchisee must follow rules and protocol how to do business, and the franchiser enter a new market with a bit higher risk than licensing but with much more control. A joint venture is another entry mode that is common. When entering a joint venture, a company in some degree both use the FSA externally and internally. The company use

their FSA by them self but they also choose to share the knowledge with a small number of partners.

- **Need of local representation:** in difference to Dunning and the eclectic paradigm the industry internationalisation model looks at localisation in another way. When Dunning refers to location advantages he signifies factors that make it more profitable to produce at a specific location as resources available in the market such as land and capital. The industry internationalisation model refers to the significance for a company to be locally and physically represented in the new market. When looking at the entry modes a distinct difference could be noticed. When choosing an investment entry mode the company receives a high commitment and high control of the company's assets. This in turn increases the risk, but for some industries there is no other solution. For instance the materials sector have a strong need to control the natural resources, such as timber or mining sites, and have to invest to be active on that location.

If a local representation is not as needed as in the materials sector, the entry mode decision depends on the extent of local representation and the choice how to use the FSA. When looking for a medium high representation on the new market and the firm has the ability or need to use their FSA externally, a contractual entry mode is the best solution. However, when the need to use their FSA internally is higher, the company will choose an exporting entry mode and the market commitment and representation will decrease.

The higher the need for a company to be represented in a new market is, the higher the commitment will be, favouring an investment entry mode. The commitment is accompanied with higher risk but also higher control. When the need to be represented on a new market is low a contractual or exporting entry mode would be preferred.

4.4 Summary

The previous discussion about the origin of the Industry Internationalisation model leads to the creation of a model. In this model we show how the entry

mode can be analysed by using the factors in the above discussion. The model is created with the purpose that companies can analyse how the different factor affect them and then put them self in the model. The model should then show the appropriate entry mode to choose when entering a new market. That is why we analyse each industry separately to determine on what level and extent the factors affect them. We then put them into the model to show which entry mode we believe to be most preferred and appropriate in the specific industry. The industries is analysed by using table 4.1 that we showed above. Below the industry internationalisation model is showed to illustrate the inter-dependence between the factors.

**Degree of firm specific assets
(in relation to other industries)**

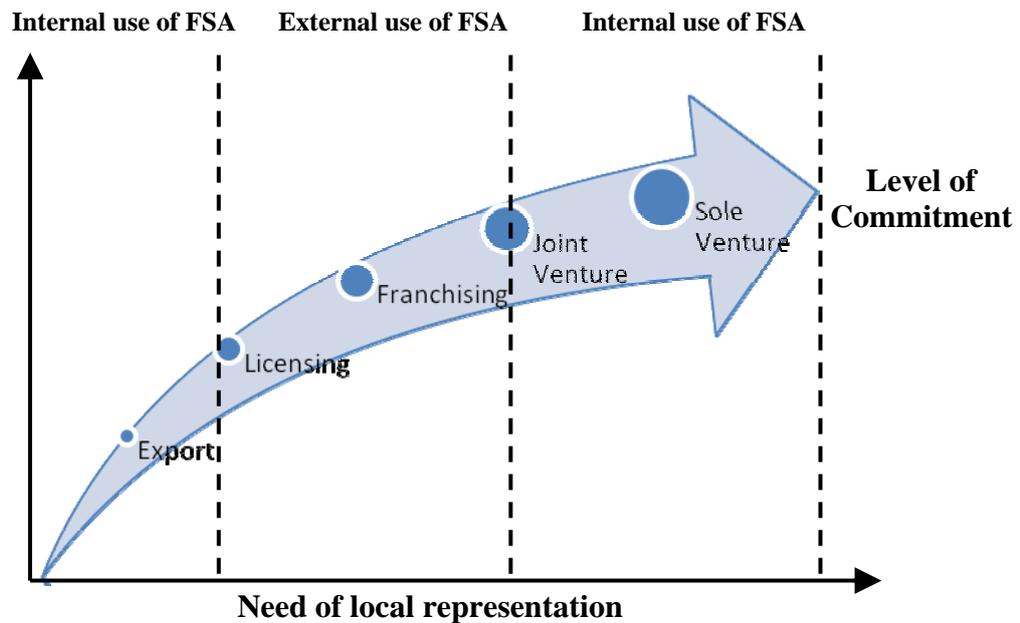


Figure 4.1: The Industry Internationalisation model

The next part will review each industry separately and the chapter will end with a final version of the industry internationalisation model with every industry placed in the figure.

4.5 Propositions

On most stock markets over the world the same standard to divide companies in different industries (Global Industry Classification Standard, GICS) is applied. The Swedish stock market is no exception and since it is these companies that are the target of this research the GICS is applicable. According to the GICS standard, companies are divided in the following way:

- Energy
- Materials
- Industrials
- Consumer Discretionary
- Consumer Staples
- Health care
- Financials
- Information Technology
- Telecommunication Services
- Utilities

In this research focus is on SMEs, and they are not represented in all industries. In addition, some industries are so wide with many different companies and different preferences in entry mode, they had to be divided. The following part will demonstrate which industries take part in our research and which industries that have been divided. In accordance with the previous description of the industry internationalisation model, each industry will be reviewed on:

- Firm specific assets (FSA)
- Internal/External use of FSA
- Need of local responsiveness

Propositions will be created to analyse each of these parts in every industry. This will clarify their positions along the axes of the industry internationalisation model. We will propose in which extent local representation and FSA affect the entry mode decision in the different industries. In the end of this chapter we will illustrate where the industries will be positioned in the model.

4.5.1 Finance

The Financial sector consist of companies involved in banking, finance, investment banking and brokerage, asset management, corporate lending, insurance, financial investment and real estate. On the Swedish stock market the finance sector is represented by a wide spread of companies in all sizes. However, all companies are similar in the way that they are depending on a specific knowledge possessed in the company.

The financial sector could be categorized to have high FSA. The knowledge could come in forms of know-how, management, experience and so on. Dunning (1980) refers to this knowledge as the firm's ownership advantages. It's been found that when asset specificity and ownership advantages are high, companies have a need of control, to make sure all knowledge stays in-house. To have high control means not only a higher risk but a higher commitment. To have high commitment and control on a market an investment mode would be preferred (Dunning, 1980).

In addition, companies in the financial sector would prefer to use the FSA internally. Rugman (1979) found that an ownership advantage could be to be represented in many different markets in order to take advantage of fluctuations in exchange rates. The financial sector deals with large sums of money, over a large amount of countries, which could result in profits by transferring money between countries. This leads to a mode of entry with a higher control, such as joint or sole venture, when entering a new market (Rugman, 1979).

Another aspect of the financial sector is to look at the product it sells. Companies in the financial sector have no material product. Instead they could be seen to offer a service; which leads to that the alternative to export when entering a new market is lost. A company could not export know-how or experience, it is something you have and need to put across in person, and as a company. This leads to that an investment mode is preferred.

P 1: Financial companies will tend to use their FSA internal, and choose an investment entry mode.

Another way to look at the financial sector is to look closer on the banking sector. History has shown that customers choose a bank that is represented on the home market. From the customers point of view it is about commitment, security and trust. It could be assumed that no one would choose a bank from another country with no offices in the country. When it comes to loans and mortgage, it is impossible to negotiate deals without knowledge about the market, which you get when you are active in that market. In addition, companies in investments and brokerage demands valuable knowledge about the market, leading to the need of being represented on the market to be competitive. Together, it leads to an entry mode with high commitment and control. Subsequently it leads to an entry mode with higher risk, an investment entry mode.

Johanson and Vahlne (1977) found that the higher intensity of people involved in the process and the company, the more ill-structured they become. People-intensity is described by the authors as “activities that are based on relations to other individuals”. They came to the conclusion that such customized businesses, for instance banking, could be expected to be dominated by high-control entry modes (Johanson and Vahlne, 1977 28). Caves (1981) made a survey that service firms, for instance companies in the banking sector, was more likely to go abroad than other firms, and often by an own entrance. He found that the reason was to preserve and extend their already existing knowledge. Location advantages, as referred to by Dunning, are an important aspect for the financial sector. Location advantages could be labour or capital, legal or political policies and so forth. Capital is especially important in the financial sector since it is the core of the business (quoted from Anderson, 1986).

P 2: Companies in the finance sector have a high need to be represented on the local market, leading to an investment entry mode strategy.

4.5.2 Materials

The Materials sector consists of a wide range of commodity-related manufacturing companies. Included in this sector are companies that manufacture chemicals, construction materials, glass, paper, forest products, and metals, minerals and mining companies, and producers of steel. The companies in this

industry can be categorized to be very depended on natural resources. In addition, the majority of the companies could be assumed to be of large size. Since the Materials sector is a capital-intense industry the firms could also be assumed to have large financial resources, which increase the options of which entry mode to choose.

As mentioned earlier, companies in the materials sector needs to be where the natural resources are and control them when producing its output. As these resources often are present in some specific geographical areas they need to be active on that local market. For instance mining and timber could be transported but still needs to have a production facility nearby the source to create the output. In the Eclectic theory this is referred to as location advantages. When location advantages are high a company should prefer to choose an entry mode with higher commitment and risk, such as joint or sole venture (Dunning, 1980).

P 3: Companies in the Materials sector have a strong need to be locally represented in order to control the resources.

Companies in the Materials sector have a specific asset in the knowledge of how to produce and manufacture their final product. This knowledge is not something that you could license or franchise, since this would increase the risk of losing the specific assets. In addition, it is a complicated and long process how to produce the output. Control is necessary to use the knowledge possessed within the firm. When control is a significant part of a firms business an investment mode would be preferred when entering a new market (Dunning, 1980).

P 4: To control their know-how and manufacturing skills, material companies would prefer to use an investment entry mode.

Another way to analyse the products in the Materials sector is to look closer at the materials. Products such as gold and timber are often very heavy, and they are complicated to export since their size is unpractical. When the value-to-weight ratio is low it is not profitable to export, especially not long distances. This leads to the favouring of an investment entry mode (Hill, 2007).

4.5.3 Healthcare

The Health Care sector can be divided into two main industry groups. The first group include companies that manufacture healthcare equipment and supplies, such as distributors of healthcare products. The companies can also provide healthcare related services, and are owners and operators of healthcare facilities and organisations. The second group includes companies primarily involved in the research, development, production and marketing of pharmaceuticals and biotechnology products.

A decisive part of the healthcare industry is research and development. R&D can be very expensive and it might take a long time until you can reap the profits of your investments. During this time-period the companies are exposed to the risk that their research might not be successful, therefore they want to minimize the risk.

Johanson and Vahlne (1977) refer to risk in the Uppsala model as a part of the knowledge and experience of a market, and degree of commitment to that market. Since the healthcare industry often has high risk wrapped up in the core activities of the business through R&D they need to reduce the risk somewhere else. A way to reduce the overall risk for the company is to choose a low-risk entry mode, such as licensing or export, when entering a foreign market. By choosing licensing you let the licensee take the biggest part of the risk (Johanson and Vahlne, 1977).

Anderson and Gatignon (1986) account for several studies that have been made on the subject. Many of the studies came to the conclusion that the higher company's research and development expenditures are the higher the extent of licensing are (Anderson and Gatignon, 1986). To compensate the risk with R&D the companies can choose an entry mode with lower risk. The company could use the FSA both internally or externally. When trying to minimize the risk, the company should favour an exporting mode. When a company export it keeps the knowledge in-house and avoids negotiating and control costs that arise when you license.

P 5: To level the risk of research and development, healthcare companies would prefer a low risk entry mode.

The best way to reduce the risk of entering a new market is to export the products to that market. By doing this the companies can serve a global market without a high risk entrance. If you export the need for knowledge and experience of a market is low, and the commitment to the market is also low. According to the Uppsala model, this is a way for the company to reduce the risk (Johanson and Vahlne, 1977). But exporting is not always the best entry mode. It depends on the products you sell. If you have products with low value-to-weight ratio it may not be profitable to transport your products to the market, you need to produce your products close to your customers. In the healthcare industry the products produced are often of low weight and high value, the combination gives the product a high value-to-weight ratio. An example of a product with high value-to-weight ratio is pharmaceuticals and biotechnology products. Since the healthcare industry needs to reduce their risk, exporting high value-to-weight products seems like an attractive way to enter a market (Hill, 2007).

The situation changes when the company has a patent on their product. For instance in markets that are more unstable the company could choose to export. When the market is relatively stable or the company does not want to enter it with a low commitment such as exporting, the company could choose to license their products or brand name. With this the company get a higher commitment than with exporting, they avoid high risk entry modes such as joint venture, but still the benefit will be relatively high. Licensing could be seen as the solution when a company expands but have no large financial resources for the subject, or when the company lacks time with a higher commitment.

P 6: Healthcare companies have a low need to be locally represented, leading them to choose a low cost and low market commitment entry mode.

4.5.4 Consumer Discretionary

The Consumer Discretionary sector tends to be the most sensitive industry to economic cycles. A large part of the consumer discretionary sector involves retail

and companies with focus on business to consumers. The manufacturing segment includes household durable goods, textiles and leisure equipment.

In the Consumer Discretionary sector the brand name is a high specific asset. Williamson (1980) refers to this as brand name capital (Williamson, 1991). In this industry consumers emphasise the value of brand name and recognition. By this the most favourable mode of entry should imply a high commitment. This results in a contractual or an investment entry mode. With a higher commitment comes higher risk but also higher control. Since companies in this industry are depended on brand name and that it is has a good reputation control is desirable.

In this industry it could be assumed that the production knowledge is more significant than the actual selling of the product. To the customers the formation, design and features of the product are important and what decides which product the customers prefer. The actual selling is not equally important as in industries with more contact between the customer and the company's sales person. With this, the producing company could chose to either use an investment mode to get total control of the whole value chain, or to franchise the products and let the franchisee be responsible for the sales.

P 7: Companies in the consumer discretionary industry tries to build and create FSA by using a high commitment entry mode.

Companies in the consumer discretionary sector that is active on more than their home market needs to change their concept when entering a new market. It could imply everything from changing commercial approach and publicity to colours and formation of the products. Consumers in different countries have different tastes and preferences. For the companies in the consumer discretionary sector this could not be neglected. This implicates the way in which a company could enter a new market, resulting in a higher risk mode of entry (Hill, 2007).

Johansson and Vahlne (1977) found that companies favour export to markets with a low physical distance from host country, and as the distance increases the entry mode involves a higher commitment and risk. In today's fast moving world and

with the consumer discretionary industry this might not be applicable. The companies often have best knowledge about markets closer to their own but this is not always the case, information is much easier to assess. To increase the knowledge of new markets the best way is to be active on the market (Johanson and Vahlne, 1977).

To be active on many different markets means that the companies strive for a multi-domestic strategy. The best way to succeed with this strategy is by a contractual or investment mode (Hill, 2007). History has shown that companies in this sector favours to franchise their product and market idea, or to set up an own subsidiary. The eclectic paradigm theory refers to this as localisation advantages that when high a company should use a higher control entry mode (Dunning, 1980).

When companies are being locally represented on many markets the risk become higher than when using an exporting mode. The options for the company becomes to franchise their product and let somebody outside the company set up a store and bare the most risk, or set up a store by joint or sole venture.

P 8: Companies in Consumer Discretionary have a need be locally represented to satisfy consumers' different tastes and preferences.

4.5.5 Industrials

The Industrials sector includes companies which are dominated by manufacturing and distribution of capital goods, construction, engineering and building products, electrical equipment and industrial machinery. The industrial sector is the largest industry with a wide spread of companies. When analysing this industry it is impossible to assume a favoured entry mode without dividing it into two separate parts: Building and Manufacturing. The reason is the difference in how the companies reach the customers and expand their operations. However, the first proposition is about the whole industry.

Companies in the Industrial sector have a specific knowledge in how to produce and manufacture their products. The products are often very technically advanced

and require a great knowledge and experience in the production process. When this is the case, a company would prefer to use the knowledge internally. The company could decide to export or invest depending on the need of local responsiveness. According to Dunning (1980), when ownership and internalisation advantages are high the chosen mode of entry depends on the need of localization (Dunning, 1980). It is on this point that the building and construction are different.

P 9: Companies in the industrial sector have a high specific knowledge in production which they prefer to use internally, by export or sole venture

Building

In the building industry it is important to be active on the host market. The interview with a former location manager from a Swedish building company, Skanska, provided some aspects to what affects the sector. There are often different laws and rules in the new market that have an impact and are significant to companies in this industry. To be aware of the rules, avoid and take advantage of them, a company needs to be active on the market. Another impact on the building industry is the company's reputation. To receive contracts on the new market a good reputation is necessary. A way to show commitment and take control of the company's reputation is to be active on the market. This would imply an investment entry mode or a joint venture (Lindgren, 2007).

P 10: Companies in the Building Industry sector need to realize location advantages, which lead to an investment entry mode.

Fisher and Ranasinghe (2001) investigated the preferred entry mode of building companies in Singapore. Since the most commonly used entry mode in the building industry is joint or sole venture, the purpose of the investigation was to see which specific entry mode is most used. The result indicated a tendency for joint venture as foreign market entry mode (Fisher and Ranasinghe, 2001).

Manufacturing

The difference between the building and manufacturing industry lies within the use of the FSA. While the building industry often has no material product or a low

value-to-weight ratio, the manufacturing often has a high value-to-weight ratio. This would lead to a favouring of an exporting mode. An interview with the CEO of a relative small manufacturing company of industrial goods strengthens the argument. In their company the most used mode of entry was export since they have no large financial resources and does not need to be locally represented (Hammarlund, 2007).

Another important aspect of the companies in the manufacturing sector is the chance to realize location economies and economies of scale. When a company has a global strategy it would be preferred to manufacture the goods at one optimal location and export everything from that location (Hill, 2007).

P 11: Companies in the Manufacturing sector have a low need to be locally represented as it is profitable for them to export.

In works by Jones et al. (1992) and Young and Hood (1992) it has been proved that export is primarily used in the manufacturing industry (as referred to Wheeler et al. 1996). Wheeler et al. (1996) state that “the industry is primarily an export-oriented one related to factors such as the predominance of small and medium-sized manufacturers in the sector (and therefore limited resources) and the specialist, niche markets served by these producers (meaning low sales volumes)” (Wheeler et al. 1996 p 44).

4.5.6 Service

The service segment includes hotels, restaurants, leisure facilities, media services, and consumer services. Another part of the service sector is commercial services and supplies which include employment, environmental and office services. In the service industry no material product exist and this impact the decision process on which entry mode to choose.

Companies in the service sector have a high FSA in know-how, and the industry is influenced by the human factor. It is knowledge that is of great value to the company, and the company would prefer to keep it under control. The option to export is often lost to companies in the service industry since they have no

material product. The service industry differs from the other industries in the way it engage a buyer involvement, and a high degree of interaction between the client and the service provider.

Since the specific asset in service companies lies within the employees or the way the company engage in business the financial resources of the firm are not that leading. With the impact of internet a service could be performed from one place and often without a location or shop, which result in an even smaller dependence on financial resources. However, when a company is not internet-based the service cannot be performed without contact. Since the service industry engage in an activity between the buyer and seller, the company needs to be represented in the market. When smaller firms enter a new market they could be assumed to strive for an entry mode with a lesser risk, such as franchising. Firms that are larger and have more financial resources could be assumed to chose an entry mode with higher commitment such as a joint venture or sole venture. (Ramaswami, 1992).

P 12: The service must be adjusted to the local preferences, which increase the need of local representation of service companies.

To perform a service is often not that complicated and demands not as much financial resources or specific asset as to produce for example capital goods. In addition, to start up a company in the service industry demands not that much capital. This means that the competition on the service industry might be more though than in other industries. To decrease the accompanied risk of entering a new market the firm could let another company use the know-how. In addition, the actual service can be used externally with low risk since the knowledge is relatively easy to duplicate. With this, a contractual entry mode would be preferred. Hill (2007) state that franchising is most used in the service industry (Hill, 2007)

P 13: Service companies have a FSA that could be contracted at low risk, leading to a preferred contractual entry mode.

However, to increase the commitment and control a company would favour an investment mode. Anderson and Gatignon (1986) came to the solution that “Entry modes offering higher degrees of control are more efficient for products customized to the user” (Anderson and Gatignon, 1986 p 12). A service could be seen as a customized product and with that an investment mode would be preferred.

4.5.7 Transportation

Transportation services include airlines, couriers, marine, road and rail and transportation infrastructure. Two of the largest areas in the transportation industry are airline services and logistics. These two are very different industries but have some similarities when it comes to the choice of entry mode.

It is relatively easy to start a company in the logistic industry, and it does not require large resources. This has led to existence of several small transportation companies. We have interviewed an executive at one of the largest logistic companies in the world. He explained that there are 8-10 really large companies in this industry and several small companies. That is why it is often profitable to acquire companies in other countries when entering that market. As these companies often are small and can be acquired at low costs, it is often more profitable than to make a Greenfield investment. When there is a low cost possibility to choose an investment entry mode, it is often preferred as it maximizes the control for the acquiring company (Söderberg, 2007).

Transportation industry performs services. The companies transport goods or people from one place to another. Their FSA are know-how, experience, organisational skills and brand name. As they do not have any physical product, it is difficult for them to export. They also have trouble to license and franchise their FSA. As the person we interviewed said “the only real choices we consider are joint venture or sole venture” (Interview 3).

As transportations affect other partners and companies greatly it is important that everything goes smoothly when they are performing their service. A wrong or delayed delivery can be costly both financially and for the reputation. It is also

fairly easy to perform the actual transportation. That is why it is important to a transportation firm to keep the estimated time of arrival of delivery and a low complaint rate. It is therefore important for companies in the transportation industry to have high control over their partners. This motivates an investment entry mode (Söderberg, 2007).

P 14: Transportation companies have a need to control their FSA, and a low cost incentive to use an investment entry mode.

Transporting goods and people all over the world from A to B imply high transportation costs. It is expensive to transport products long distances, and especially when it is a long distance only to arrive at A. When having subsidiaries on many markets, and being locally active on many markets the transportation costs will be decreased. In addition, it increases the knowledge about the new market and how to approach the customer. Moreover, to set up negotiations and deal with contracts also is time consuming and increase the transaction costs. By using an investment entry mode the transaction costs decreases (Interview 3).

The transportation industry involves several people. The decision making process is often long. It is common that the transportation company hire a carrier to perform the actual transportation. As mentioned, the brand name and reputation is very important in this industry. In order to secure that the firm's reputation do not get damaged, companies try to cut the negotiation costs. As our interview person tells us, historically it was common with joint ventures in the transportation industry. But in time companies became untrustworthy and cancelled their undertakings on short notice in order to negotiate new terms. The industry has overcome these kinds of situations by entering markets through sole ventures (Söderberg, 2007).

P 15: To lower transportation and transaction costs the companies have a high need to be represented on local markets.

4.5.8 Information Technology

The Information Technology (IT) sector covers a number of businesses. It contains technology software and services, companies that provide information technology consulting and services, technology hardware and equipment, and semiconductors and semiconductor equipment manufacturers.

The IT sector is an extremely technology based industry. The FSA are know-how and especially technology. According to Dunning (1980), Anderson and Gatignon (1986) and other well known researchers it is preferred to have a high control over such FSA. Companies in the IT sector should then favour an investment entry mode.

P 16: Companies in the IT sector have high specific assets in advanced technology and special know-how, leading them to desire high control.

However, companies in the IT sector are often small entrepreneurial companies with high FSA but with small financial resources and often low international experience. As sole venture often are very expensive it is assumedly not the most common entry mode in this industry. The IT industry has some similarities with the healthcare industry. Large financial resources are invested in the development of new and technology advanced products. As mentioned earlier, the higher a company's research and development expenditures are the higher the extent of licensing is (Anderson and Gatignon, 1986). To compensate the risk with R&D, the companies can choose an entry mode with lower risk. The companies have the possibility to use the knowledge both internally or externally. The products often have a high value to weight ratio which favours an exporting mode. However, they also often have patents on their products which make it possible for them to license it.

IT companies do not have a great need of being locally represented. As many IT companies are internet based or at least use the internet when serving new markets, they can be based on one specific location and yet serve a wide market. They also often have their customer support on the internet which further reduces the incentives to have foreign operations. This means that they do not need to

engage in a sole or joint venture. This minimise the risk and the level of commitment.

P 17: The companies in the IT sector can reach their customers by using modern technology and their need to be represented in local markets is low.

4.5.9 Energy

The Energy sector consists of companies with a focus on constructing or provisioning of oil rigs, drilling and other energy related services and equipment. It is also companies engaged in the exploration, production, refining and transportation of oil and gas products, coal and other consumable fuels. Companies in this sector are often very large, and could be assumed to have high financial resources. It is also an industry that consists of a small amount of companies, with a close connection to an oligopolistic market.

Companies in the energy sector have a very specific asset in the firm. It is the know-how and knowledge possessed within the company. When the FSA are high the need to keep the knowledge within the company gets higher. This would lead to an entry mode with higher control and naturally higher risk, an investment entry mode (Dunning, 1980).

The Energy sector has a special product, by many consumers it could be seen as the companies provide a service. It is possible to export and transport the products but it is not profitable long distances, this due to the value-per-weight ratio. History has shown that many countries purchase their oil from bordering countries, and that energy companies enter new markets with a high commitment. It is also a product that is hard to use externally, franchising or licensing the product is hard. To reach the resources and to grow financially an investment entry mode would be preferred.

P 18: Companies in the Energy sector have a high FSA and will tend to use it internally by an investment entry mode.

The energy and materials sector is closely connected when it comes to the production of its products. In both industries it is very important to realize location advantages. In the energy sector it involves control of the natural resources to produce for instance electricity or to pump oil. As mentioned on the Materials sectors, these resources are often present in specific geographical areas and therefore the companies need to be active on that market to control them. Dunning states that when the local advantages are high a company should prefer an entry mode with higher commitment and risk, such as joint or sole venture (Dunning, 1980).

Another aspect is the importance of being locally represented on the new market to gain the trust of customers, and to sell the product. It is also important to receive valid information about the new market, and this is possible when a company is active on the market.

P 19: To control natural resources and increase commitment, companies in the energy sector have a high need to be represented on local markets.

4.6 Conclusion

After analysing each industry we have shown how different factors affect companies in the industry. To show which entry mode is the most common in the different industries, we present them graphically in the model below:

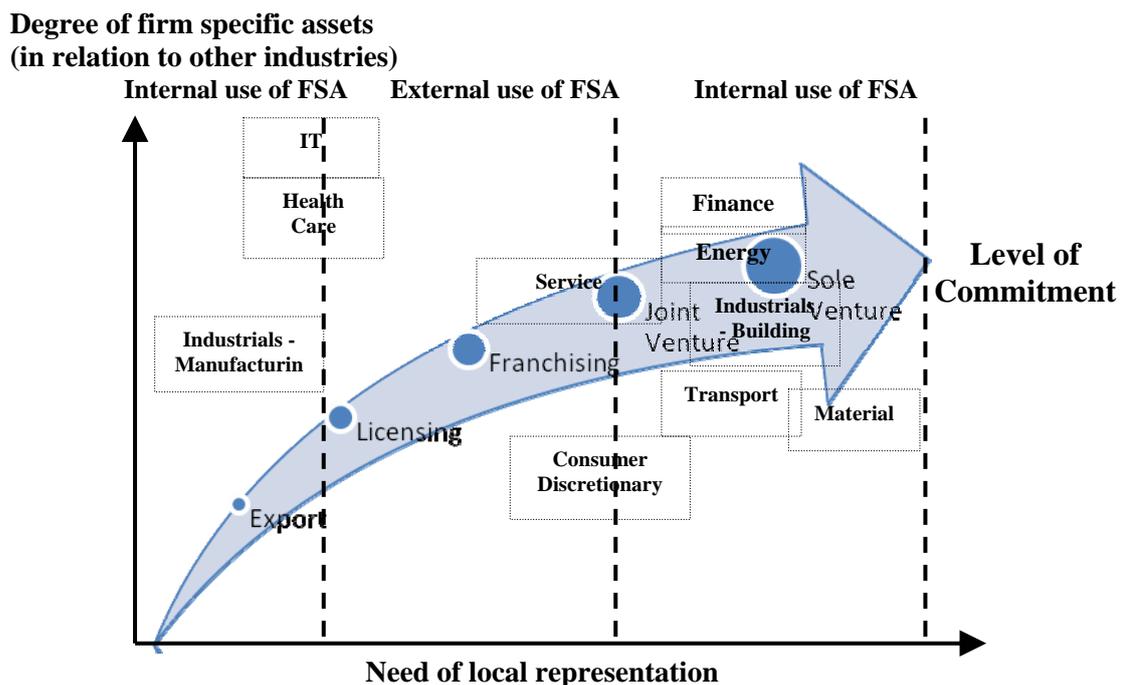


Figure 4.2: The Industry Internationalisation model with industries

Chapter 5: Empirical method

In chapter 5 the method for the empirical research will be explained. This will include the research strategy, the data collection method and the sample. Further, we will discuss the questionnaire, the operationalization and the data analysis. At the end of this chapter we will have a discussion about the validity and reliability.

5.1 Research strategy

To be able to build a new model an extensive amount of literature was reviewed. With the help of the literature we created propositions. These propositions then became the framework of our new model. To test these propositions an empirical study was conducted. The result should determine if our propositions were valid in order to prove the applicability of our model. Our dissertation is deductive in its nature since we developed a theory and proposition and designed a research strategy to test the propositions (Saunders et al. 2007).

The research strategy that was most suitable for the requirements of our dissertation were a survey since it is easy to collect a large amount of data and easy to compare and analyse. We created a questionnaire that we sent out to our sample group. The questionnaire gathered data that allowed for easy comparison. A survey was also an appropriate choice of research strategy for us concerning the time and financial constraints associated with a bachelor dissertation. Some disadvantages arise with a survey when you are only able to put a limited number of questions on a questionnaire. According to Saunders et al. (2007) the willingness of participating in a survey is dependent upon the number of questions and the time participants have to spend to answer. In a survey the research will either confirm the developed theory or reject it. If the theory is rejected it would need to be adjusted.

Our survey was conducted through an on-line questionnaire. An advantage with using a questionnaire is that it is possible to investigate a large sample in an quick and economical way (Saunders et al. 2007) We built our own web site, www.modeofentry.com, where we posted the questionnaire. Posting a

questionnaire on the web site is a quicker way for the respondent to answer than a document with an attached file that needed to be returned. Further, the respondents could remain anonymous.

We contacted the companies by e-mail where we presented ourselves and the purpose and aim of our research (see appendix1). With the e-mail we hoped to set a friendly tone which would hopefully increase the response rate since it is normally low in these kinds of surveys.

5.2 Data collection method

Primary and secondary data are the two types of data considered in theory. Secondary data is data that is already collected and available from other sources. Secondary data for our dissertation were found on the Internet, in books and in established business journals. We used the secondary data found to get a theoretical background of the internationalisation theories. Primary data is created through the accomplished research (Saunders et al. 2007). We obtained primary data through the questionnaire posted on the web site. In addition, we conducted interviews with persons from the manufacturing, transport and building industry. The interviews were performed in an unstructured way, through telephone or in person. From the interviews we received data that strengthen our propositions about the industry. For more information about the interview in detail see references.

5.3 Sample selection

The purpose of our study was as we stated before to see if there are any differences in industries choice of entry mode. To attain the information we needed to collect data, the sample would have to represent companies in different industries. The companies also needed to be on or have plans to enter foreign markets. Further, the companies could not be too big and complex since they often operate in many markets were they possibly choose different entry modes when entering a market. Since we asked the companies about the industry in general, the answers would not be a reflection of their own strategy.

In order to accomplish the desired results we chose 266 companies on the Swedish stock market as our initial sample. The companies are based on the Mid cap, Small cap and the First North stock market. We believe these companies to be aware of what would be the best way for them to enter a new market. At the same time we believed them to be small enough for us to get in touch with someone within the companies that would be capable of answering our questions. Time and financial constraints forced us to choose companies that are based only on the Swedish stock market. Since we wanted to get results that could be generalized a very large sample was needed but the limitations of time and financial resources compelled us to reduce the sample. The e-mail we sent to the companies was sent to a person high up in the hierarchy, such as the CEO or the CFO.

5.4 The Questionnaire

As mentioned earlier, we chose to gather the information needed through a questionnaire. The importance of constructing the questionnaire in an appropriate way could not be neglected. The respondents needed to understand the questions in the way intended for the results to be valid. Further, we had to interpret the answers in the right way. We used familiar terms in the questions and considered the wording carefully to avoid misunderstandings. We posted the questionnaire on the web site in both Swedish and English since some managers may not be of Swedish origin, this will hopefully reduce any translation mistakes from the participants.

An advantage with a questionnaire is that it is possible to investigate a large sample, in our case 266 companies, in an easy and economical way. On the other hand a questionnaire also has disadvantages and risks when used in a survey. The researcher does not know who is answering the questionnaire. (Saunders et al. 2007) Since one of managers most valued resources is time they might let someone else answer, to the best of his or hers knowledge. Another risk is of course that the participants lie because they do not want to share confidential knowledge.

5.5 Response rate

Our sample consisted of 266 companies that are based on the Swedish stock market. We sent an e-mail (see Appendix 1) to each of those companies, asking them to participate in our survey. Seven of the e-mails did not reach the intended address resulting in a delivery notification (failure) which means that the e-mail did not reach the intended address. 259 e-mails reached their intended address. Six of the firms (2.3%) that answered the e-mail said that they did not want to participate in the survey. We got 82 answers on our questionnaire resulting in a response rate of 31.7%. (See table 5.1 below).

Table 5.1: Results of the questionnaire

	Non-respondents	Answered that they would not participate in the survey	E-mail delivery failure	Participants	Total number of E-mail sent	Number of E-mail receivers
Number of firms	171	6	7	82	266	(266-7) = 259
Percentage of total sample	66.0%	2.3%		31.7%		100%

We did not know what response rate to expect since all the companies are public. Sending the e-mail personally to one person at each company probably increased the will to participate in the survey. After putting some extra effort into formulating the e-mail we are satisfied with the response rate.

5.6 Operationalization

With the help of literature and articles we set out trying to create a new internationalisation model. The purpose was to create a model that can explain the differences in the choice of entry mode between industries. We then reviewed what we believed to be the most important models that explain companies' internationalisation process. As mentioned earlier the models we chose were: The Uppsala model, the TCA model, and the Eclectic paradigm. We then studied these models in detail in order to find what we believed to be the most important factors explaining companies' choice of entry mode. In addition, we formed three factors that we believed influenced companies' choice of entry mode. The factors we chose when creating a new model were: degree of FSA, need of local

representation, and how the companies use the specific asset. Since we were going to test our model through a survey we had to limit the number of factors to those previously mentioned in order to keep it simple and applicable. With the help of the factors we created propositions and a new model.

We tried to measure and test our model quantitatively by using a questionnaire. Operationalization specifies the way in which a concept is to be measured quantitatively (Saunders et al. 2007). The questionnaire starts with dividing the companies into different industries. The second question is used to divide the companies into categories based on how many employees they have. The two first questions are used to divide the companies into different groups of industry and size. Question 3 asks the participant to answer which mode of entry they presume to be most commonly used in their industry. We used the three first questions to divide the companies into industries and which mode of entry they believed to be most commonly used in their industry. We then needed to find out what made companies enter a new market in a certain way. With this in mind we asked one question from each factor influencing the entry mode selection according to our model.

The last three questions in the questionnaire tries to pin-point each company's answer into the new model. If our propositions and questions are correct they will correspond with the results from the survey. Questions 4 and 5 are designed as scale questions, where the respondents answer what they believe to characterize their industry. The scale in question 4 and 5 ranges from very low to very high. Question 4 ask the participants how important they believe it is to be locally (physically) present on a new market. Question 5 asks the companies how important they believe the FSA in their industry to be in comparison to other industries. The last question divides the companies into two groups, those who use their FSA internally and those who use the assets externally. All the questions in the survey are designed to test the model we created. In the next chapter you will get the results and analysis of our survey and the answer if our model and proposition corresponds with the results. Each industry will begin with a table over the participants in that specific industry and show the result of the previous mentioned questions.

5.7 Analysis of the material

The response rate of the survey was important when it came to analyse the questionnaire. Since the respondents became divided into subcategories we did not have an enough data to analyse the questionnaire statistically in each industry. However, in the industries that had a higher response rate we calculated the mean value, median and standard deviation. Each industry was analysed separately by using three figures: the first figure is a table that show all participants in the specific industry, the second figure is the industry internationalisation model with clusters of the chosen entry modes and where the industry is located in the model, the third figure is the model again but this version is with each participating company located in the model depending on their result of the questions in the questionnaire. In addition, with each figure comes a discussion about the result.

5.8 Validity & Reliability

According to Saunders et al. (2007) you need to pay particular emphases on two parts of the research design, validity and reliability, in order to reduce the risk of getting the answers wrong. An example of this is that problems often arise when you evaluate a developed theory through empirical testing and then transfer the results into reality. What this means is that you may get a distorted picture of the reality if the questions are hard to operationalise. To understand the meaning of validity and reliability it will now be discussed further.

5.8.1 Validity

For research to be good it needs to be characterized by high validity. A problem is that even though we believe our questions to measure what we want them to measure we cannot be sure. There is always a risk that a question can be wrongly formulated or misleading. This is why the validity of the research is so important. Validity examines the causal relationship between two variables and shows if the findings are what they appear to be. The design of the questions, how the questionnaire is structured and how rigorous the pilot test is are all important factors how high the validity will be (Saunders et al. 2007). As mentioned earlier we put a lot of effort into the design of the questionnaire, few and easy to understand questions were of great importance. We did a pilot test before sending the questionnaire to our sample group. The pilot test sample group consisted of

managers we knew, in different industries. The pilot test sample group all agreed that the questionnaire was formulated in a good way and the questions were easy to understand.

5.8.2 Reliability

For research to be reliable the result of an operationalization will have to yield the same results during a re-test under similar conditions. Reliability refers to consistency (Saunders et al. 2007). The reliability of your questionnaire will be low if the respondents consistently interpret a question one way, when you mean something else. To prove the reliability of the research a re-test would be necessary.

In our research we asked questions about managers' thoughts about their industry. Since no manager knows everything about their industry the results may be misleading. When formulating questions like the ones in our questionnaire we ask of a certain person's opinion. The managers' opinion may change due to different circumstances. We tried to formulate the questions in a neutral way so that we did not influence the answers. Another way to increase reliability is internal consistency. Internal consistency involves correlating the responses to each question in the questionnaire (Saunders et al. 2007). Our questionnaire does not have correlating questions, so our research does not have internal consistency. Therefore internal consistency has not been used to increase reliability in our research. Another way to increase the reliability is check-questions. The problem with check-questions is that they need to be somewhat equivalent to the other questions, increasing the length of the questionnaire. We decided not to increase the length of the questionnaire with check-questions because it affects the response rate.

Participant bias is a threat to reliability. If the participant lies the reliability of the research will be lower. This kind of threat is very hard to avoid but if you guarantee full anonymity, like we did in our questionnaire, the respondents have no reason to lie. In order to reduce misunderstandings due to language barriers, we sent the e-mail in both Swedish and English. The participants also had the choice to answer the questionnaire in either Swedish or English.

Chapter 6: Analysis

In chapter 6 each industry will be analysed separately. By using the results from the questionnaire and comparing it to the propositions we will statistically see if the propositions and the industry internationalisation model are working. At the end of this chapter we will have a final presentation of the model and if it had to be configured.

6.1 Introduction

After reviewing theories, and having analysed each industry separately according to the industry internationalisation model it is now turn to test the model on companies. Each industry will be analysed from the three basis of the industry internationalisation model: firm specific assets (FSA), internal/external use of FSA and need of local representation. The analysis will contain three figures:

- A table over all participating companies in each industry, the number of employees in the company, how each company graded (from 1-7) the FSA and need of local representation in each industry, and finally which entry mode the company presume to be the most used in the industry and which entry mode the industry internationalisation model predicted.
- A model showing the industry internationalisation model and where the specific industry is located in the model, and a spot for which entry mode the companies in the industry presumed to be the most used, without regard of their answer on degree of FSA.
- A model showing the industry internationalisation model and where each company is located according to the grading over FSA and need of local representation in the industry. In addition it shows a symbol for which entry mode the company presume to be most used in the industry with the question if it matches the grading for FSA and need of local representation.

A comparison will be made between the predicted and actual results from the questionnaire. Further, the result will then be discussed and if it is right according to the model and the assumed reasons if the result deviates. The chapter will be summarised by a final presentation of the industry internationalisation model with the actual results of all industries.

6.2 Finance

From the participants in our survey there was only one company that belonged to the finance industry. The data we got is not sufficient to do any valid generalized conclusion for the finance industry but we will analyse our propositions anyway. As mentioned earlier, the financial sector could be categorized to have high FSA. To be able to keep the FSA in-house the firm needs to use their assets internally. Financial companies' answers can be seen in the table below:

Table 6.2.1: Result from the finance industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
<i>1</i>	<i>4</i>	<i>Internal</i>	<i>4</i>	<i>1</i>	<i>Joint Venture/Sole Venture</i>	<i>Joint Venture</i>

The company that answered the questionnaire believe that companies in the finance sector use their FSA internally. This corresponds with our first proposition that financial companies will tend to use their FSA internally and choose an investment entry mode.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

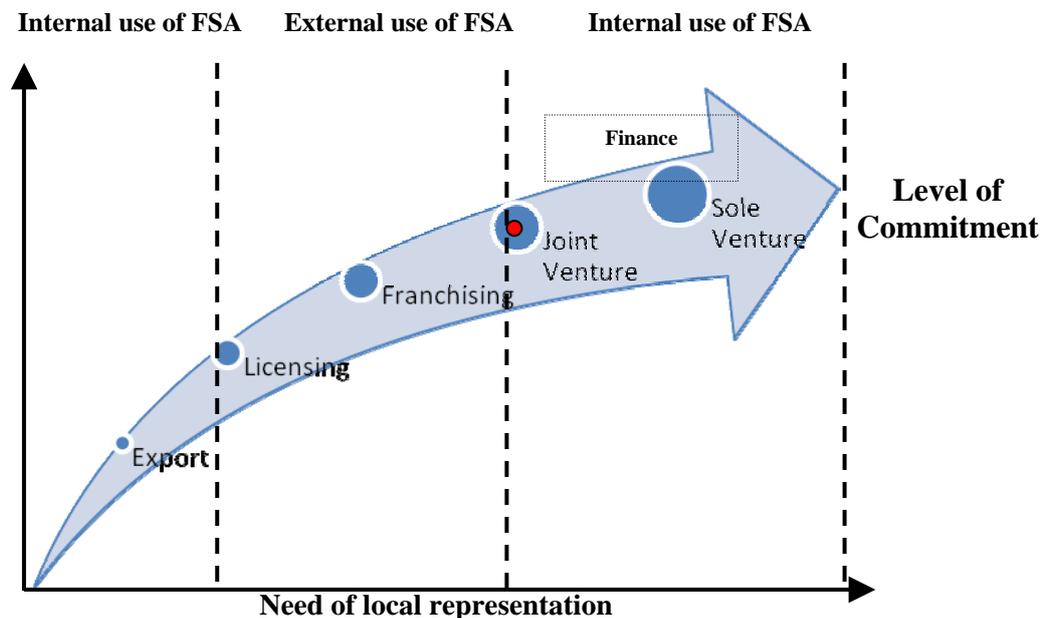


Figure 6.2.1: The predicted/actual entry mode in the finance industry

As mentioned in chapter 4, we discuss the financial sector, customers often choose a bank that is represented on the home market. From the customers point of view it is about commitment, security and trust. To be close to customers companies tend to use an investment mode as we mentioned in proposition two.

The firm that answered our questionnaire believe joint-venture to be the most commonly used entry mode in the finance sector, so far it corresponds with our propositions. A question arises when the firm answer that the need for local representation is very low. This contradicts our second proposition. The problem is that we need more data to be able to draw any conclusions.

The second model on the next page shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the company should choose according to our model and theories. The colours show what their actual entry mode was.

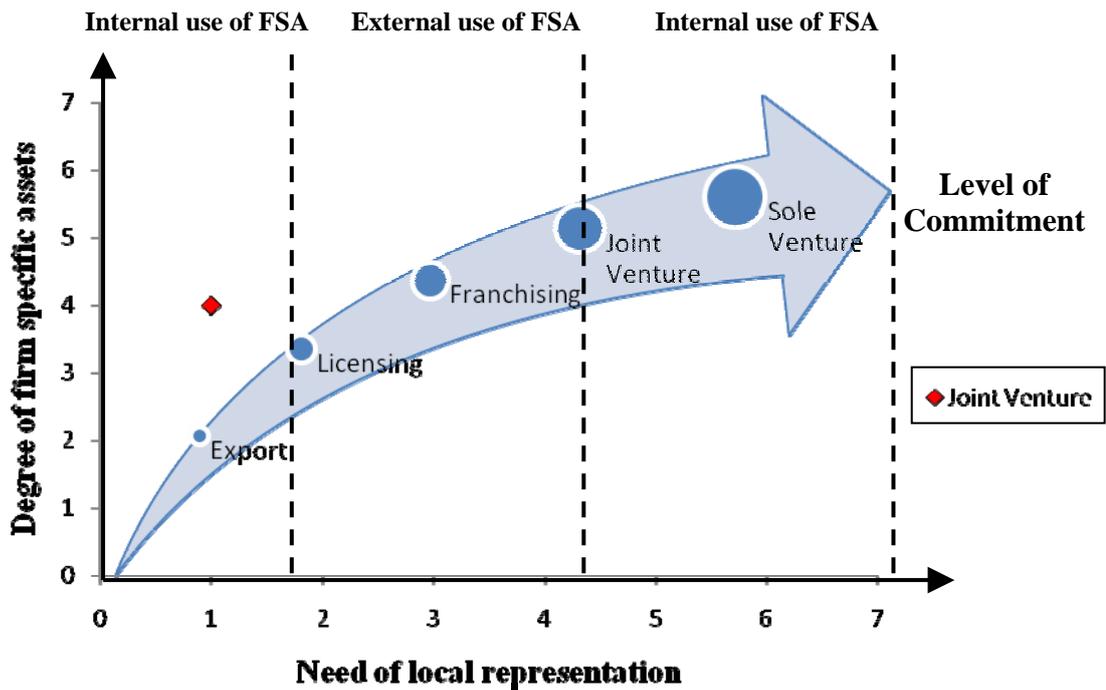


Figure 6.2.2: The suggested/actual entry mode in the finance industry

As mentioned earlier the firm answered that they believed the need for local representation is very low in the finance industry. We do not believe this is the case for the finance sector but we do not have more data to confirm it and cannot state that our analysis of the finance industry is valid.

We can conclude the analysis of the finance industry by noticing that the industry internationalisation model does not explain how companies in the finance industry enter new markets. The respondent's answer on the industries' degree of FSA and need of local representation should result in a low commitment entry mode, according to the model. However, the sample is too small to create any valid conclusion. Our predicted entry mode for the financial industry was a high commitment entry mode which proved to be the case.

6.3 Material

When analysing the material industry we found a close connection to the energy sector. The materials sector has a high need to control the supply of natural resources in order to produce the output, for instance in this case the access to mines and forest. As mentioned earlier, the companies in the material industry is

assumedly of large size and has large financial resources since it is a capital-intensive industry. Since the companies in this industry have a need to control the supply of resources, and the presence of natural resources often are in specific geographic areas, an investment entry mode would be preferred, as we stated in proposition three. In addition, we stated that it was a product that was unprofitable to export long distance due to low value-to-weight ratio. Material companies' answers can be seen in the table below:

Table 6.3.1: Result from the material industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of location representation	Predicted entry mode	Actual entry mode
<i>1</i>	<i>14</i>	<i>Internal</i>	<i>6</i>	<i>7</i>	<i>Sole Venture</i>	<i>Export</i>
<i>2</i>	<i>5</i>	<i>Internal</i>	<i>7</i>	<i>2</i>	<i>Sole Venture</i>	<i>Joint Venture</i>

Both companies that participated in our research are small considering the number of employees. In addition, both companies stressed the importance to use their FSA internally. This choice is reflected in the entry mode which the companies presumed to be most used in the industry; both export and joint venture are entry modes that keep the knowledge within the company. However, a joint venture enables some partners to use the FSA. In the propositions on the material industry we clarified that it was important to use the FSA internally, however the companies would prefer to use an investment entry mode since we found the exporting option unprofitable at long distances (proposition four).

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

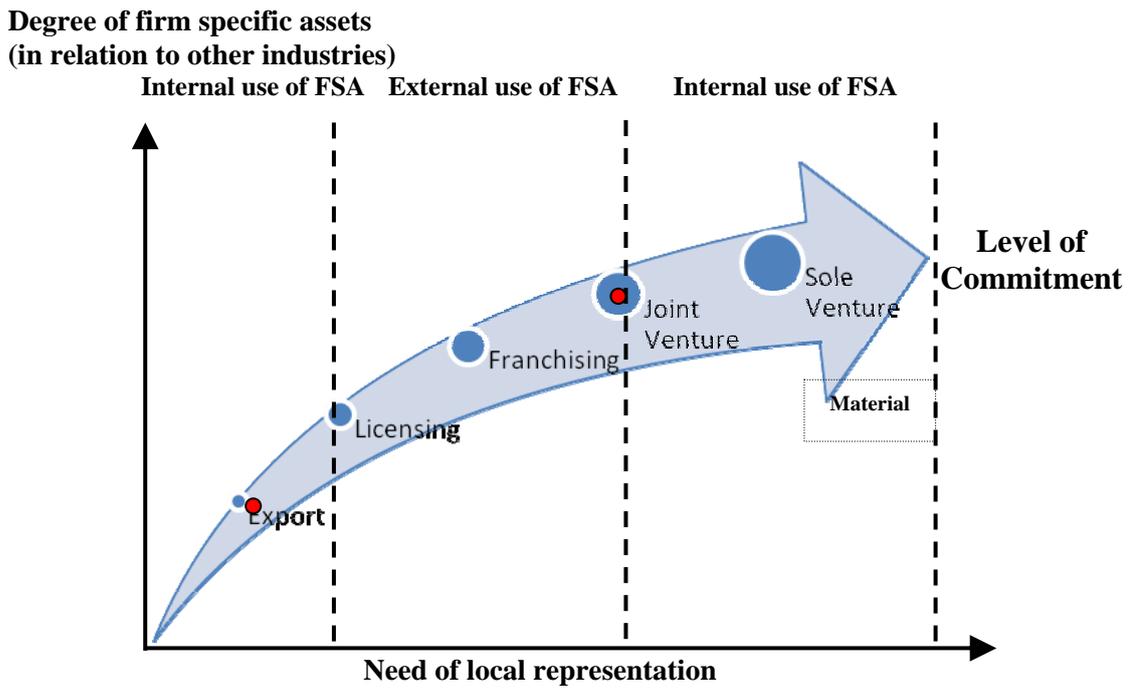


Figure 6.3.1: The predicted/actual entry mode in the material industry

The model clearly shows that the industry internationalisation model is not applicable on the materials industry, at least not these two companies. The second model shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

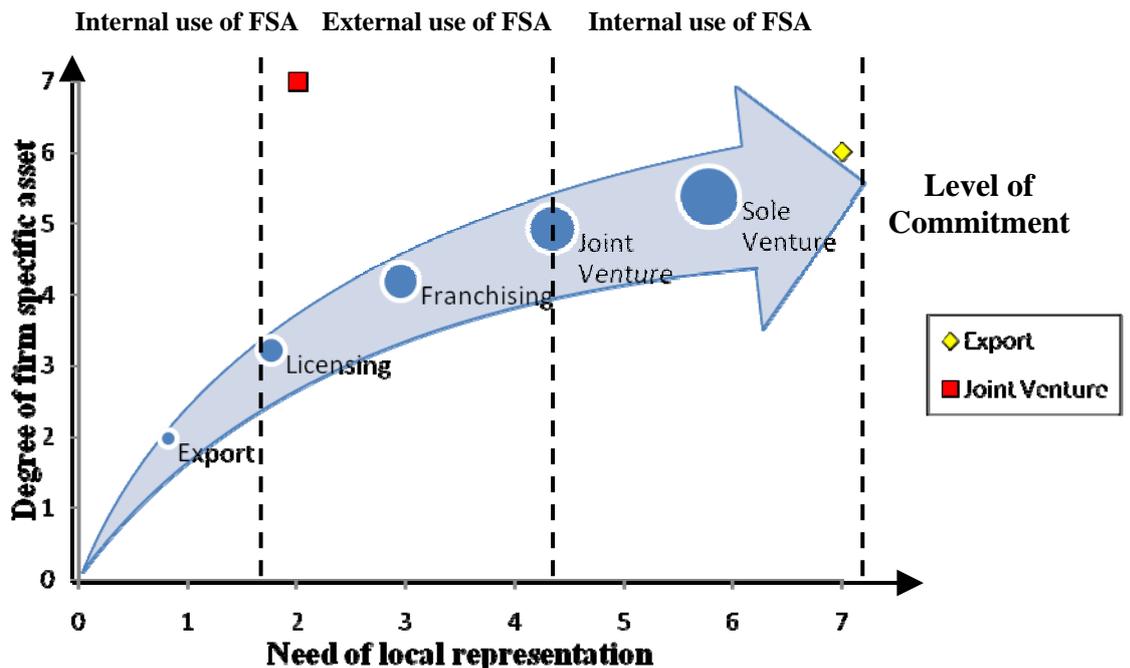


Figure 6.3.2: The suggested/actual entry mode in the material industry

In this figure above you get a clear view that the companies are each other's opposites. Company 1 states the importance of local representation and then presume that export is the most used entry mode in the industry, which contradicts the industry internationalisation model. On the other hand, company 2 states that it is not so important to be locally represented in the materials industry while the company presumes that joint venture is most used in the industry. This also contradicts the industry internationalisation model. If the two companies were to change places the model would have motivated their answers.

However, only one of the companies that participated in our survey confirmed the propositions. Since the company that presumed the importance of local representation in the material industry stated that export is most used in the industry there is something that differentiate.

We can conclude the analysis of the material industry by noticing that no clear answers were given. The industry internationalisation model is not applicable to the material industry, at least with our respondents. Clearly there are other, more important factors that affect companies in the material industries' choice of entry mode. However, our proposition on the high FSA in the industry proved to be accurate but the importance of local representation was not confirmed. Notice that the sample was too small to make any valid conclusion.

6.4 Healthcare

As we stated earlier in chapter 4, the healthcare industry is very research and development focused. It is a capital intense industry to operate in, with high financial risk. The uncertainty of the research projects are high and it is difficult to evaluate the financial outcome of an investment. We predicted that companies in the healthcare industry would try to decrease their overall risk by preferring a low commitment entry mode. We suggested that if it was possible that the companies should get a patent on their products and license it. If not, they should consider export as entry mode. Out of 82 participants in the survey, 5 of them belong to the healthcare industry. Their answers can be seen in the table below:

Table 6.4.1: Result from the healthcare industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
<i>1</i>	<i>5</i>	<i>Internal</i>	<i>7</i>	<i>2</i>	<i>Export/Licensing</i>	<i>Export</i>
<i>2</i>	<i>100</i>	<i>External</i>	<i>7</i>	<i>1</i>	<i>Export/Licensing</i>	<i>Licensing</i>
<i>3</i>	<i>90</i>	<i>External</i>	<i>7</i>	<i>2</i>	<i>Export/Licensing</i>	<i>Licensing</i>
<i>4</i>	<i>19</i>	<i>External</i>	<i>5</i>	<i>4</i>	<i>Export/Licensing</i>	<i>Licensing</i>
<i>5</i>	<i>30</i>	<i>Internal</i>	<i>2</i>	<i>7</i>	<i>Export/Licensing</i>	<i>Sole Venture</i>

The companies that participate were small to medium sized companies in terms of the number of employees. The FSA was high and the need of local representation was relatively low. This confirms our propositions about the healthcare industry. However, company number 5's answers were opposite to the results of the other companies. As a majority of the participants preferred a low commitment entry mode such as export and licensing, it strengthens our propositions.

In our first proposition we declared that companies in the healthcare industry had high FSA. As it is an expensive industry connected with a high level of risk, we argued that they would try to decrease their overall risk and choose a low risk entry mode. As we can see in the table, a majority of the companies chose a low risk entry mode like export and licensing. The results also show that companies in the healthcare industry consider themselves to have a high degree of FSA.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

The model shows that we thought that healthcare companies would prefer export or licensing depending if they choose to use their FSA internally or externally. The model clearly shows that a majority have chosen export or licensing.

**Degree of firm specific assets
(in relation to other industries)**

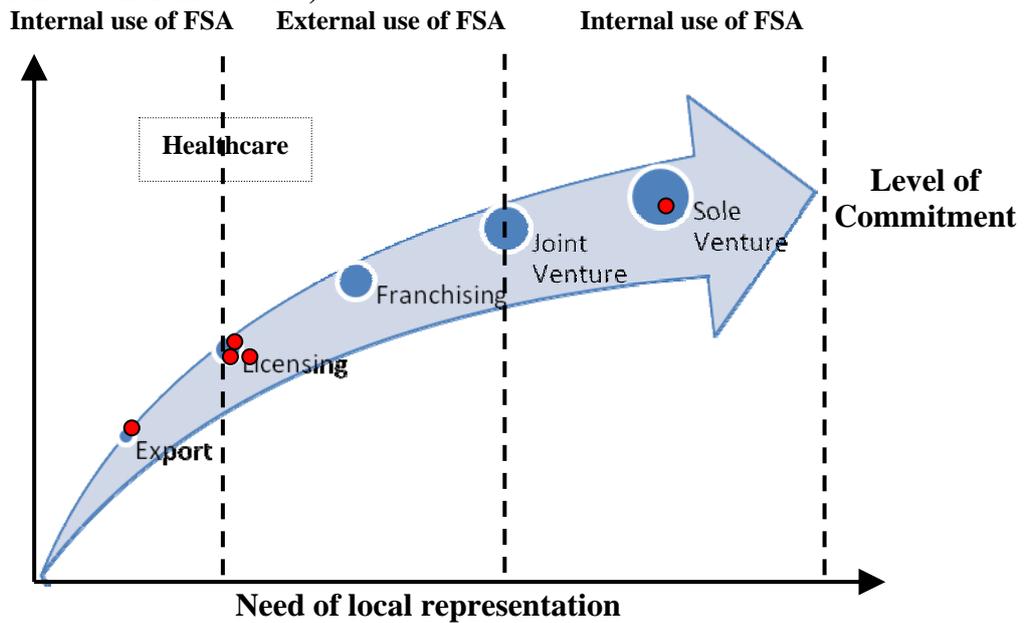


Figure 6.4.1: The predicted/actual entry mode in the healthcare industry

The second model shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

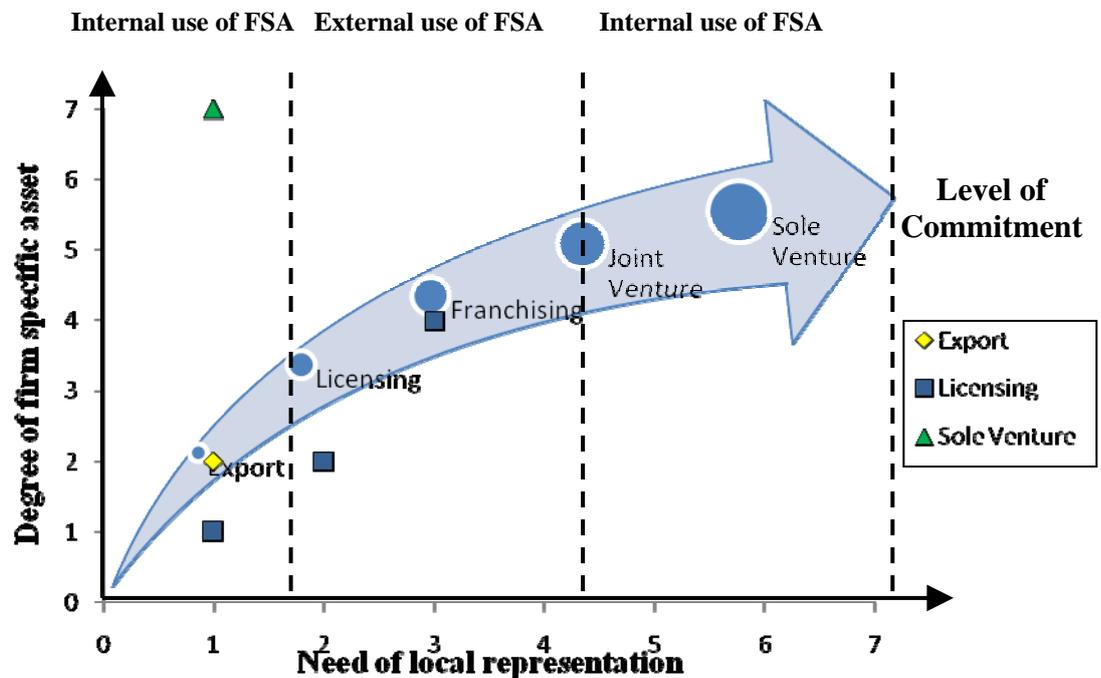


Figure 6.4.2: The suggested/actual entry mode in the healthcare industry

Companies 1, 2 and 3 have high FSA and low need of local representation. They should, according to our model, prefer an entry mode with low commitment. We can see that they have chosen export or licensing which is a low commitment entry mode. Company four consider the industry to have a medium degree of FSA and a medium need of local representation. They have chosen franchising and it seems to be a well motivated choice according to our model but they could also choose to partially use their FSA internally by a joint venture. Company number 5 believed that local representation is very important and have chosen a sole venture. It is motivated in the model since companies with a high need for local representation should choose a high commitment entry mode.

We can conclude the analysis of the healthcare industry by noticing that the industry internationalisation model work relatively well when it describes healthcare companies' entry mode. A majority choose the predicted entry mode, as the second model showed, the companies choose an entry mode that matched their degree of FSA and their need of local representation. This can arguably be translated to that the factors in the model helps to explain healthcare companies' choice of entry mode.

6.5 Consumer Discretionary

We discussed earlier that companies in the consumer discretionary sector have a FSA in brand name. In proposition 7 we state that the companies should try to build and create FSA by using a high commitment entry mode. Another important aspect in the consumer discretionary industry is the need to be locally represented on new markets in order to satisfy costumers' different preferences (proposition 8). From the participants in our survey 10 companies belonged to the consumer discretionary industry. In the table on the next page we can see what the firms answered in our survey. An interesting observation is the two firms that believed licensing and franchising to be the most commonly used entry mode in the consumer discretionary sector. They believe that an internal use of FSA is most common in the industry. The company that chose licensing did not believe that the industry has a high degree of specific assets in comparison to other industries. They believe licensing to be the most common way to enter new markets.

Table 6.5.1: Result from the consumer discretionary industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of location representation	Predicted entry mode	Actual entry mode
1	370	Internal	7	7	Franchise / Joint Venture	Export
2	400	Internal	7	4	Franchise / Joint Venture	Export
3	286	External	7	3	Franchise / Joint Venture	Export
4	25000	External	7	7	Franchise / Joint Venture	Export
5	3500	Internal	1	1	Franchise / Joint Venture	Licensing
6	3500	Internal	4	7	Franchise / Joint Venture	Sole Venture
7	20	Internal	1	1	Franchise / Joint Venture	Sole Venture
8	3500	Internal	6	6	Franchise / Joint Venture	Sole Venture
9	1400	Internal	6	6	Franchise / Joint Venture	Sole Venture
10	5000	Internal	7	7	Franchise / Joint Venture	Franchising

As we can see in table 6.5.1 a majority of the respondents chose to use the FSA internally. This corresponds with their choice of entry mode. We predicted that companies should chose franchising or a joint venture which leads to external partners using their FSA. The degree of FSA in the industry seems to be higher than expected which can motivate some companies' choice of a high commitment entry mode. We also notice that it is a wide range of company sizes amongst the respondents but it does not appear to influence the entry mode choice. We can see that six of the ten participants answered that they believe a contractual or an investment mode to be most commonly used entry mode. But only four out of these six firms believe it is important to have local representation.

Since we have a larger sample, we can provide some statistical analysis of the industry (see table 6.5.2).

Table 6.5.2: Statistical analysis of the consumer discretionary industry

	Degree of firm specific assets	Need of local representation
Mean value	5,3	4,9
Median	6,5	6
Standard deviation	2,45	2,47

Table 6.5.2 above shows that the mean value is 5.3 and median is very high, 6.5, of the degree of FSA. This motivates the majority's decision to use the FSA internally. The need of local representation is also statistically high. As the companies believe the need for local representation to be high, a high commitment entry mode should be preferred. This is however not the case as there is a large diversification between the respondents perceived entry mode. However, the standard deviation is rather high in both variables, which can explain the large difference between the companies' perceived entry mode.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

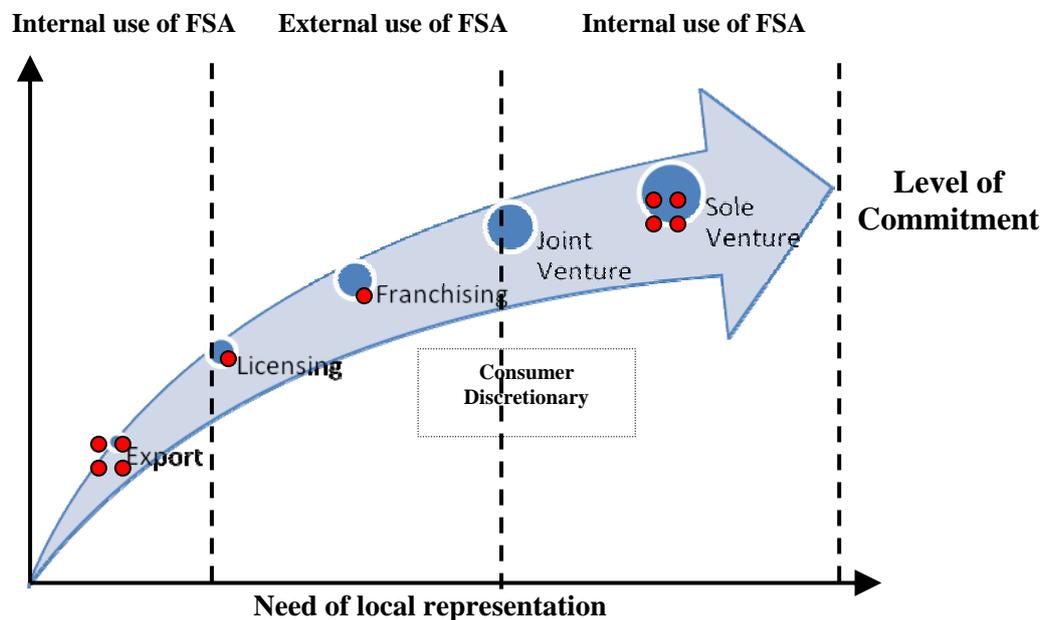
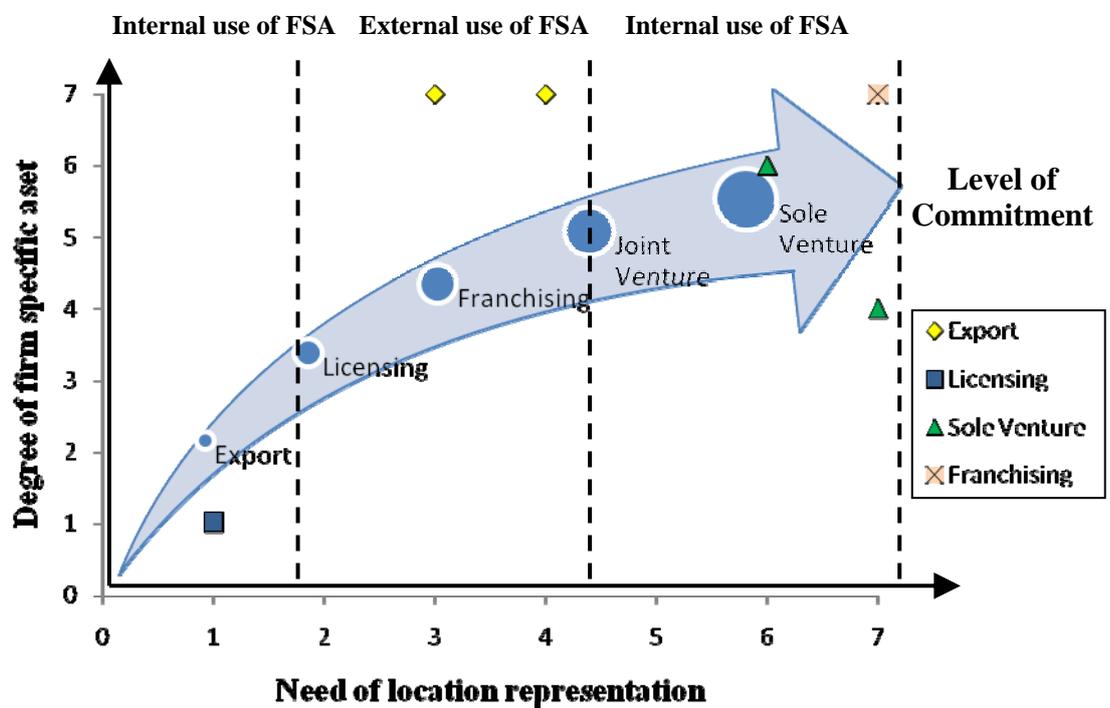


Figure 6.5.1: The predicted/actual entry mode in the consumer discretionary industry

In the model we can see that a majority choose to use their FSA internally. The result is difficult to analyse whether it is important to be locally represented or

not. The predicted entry mode is proven to be wrong. We thought that companies should choose a high commitment entry mode but also choose to externally let other companies use their FSA. This should result in a franchising or joint venture. Our propositions proved to be partially wrong.

The model on the next page shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.



(Some of the respondents in the survey had the same answers, resulting in that they are illustrated on top of each other in the model above.)

Figure 6.5.2: The suggested/actual entry mode in the consumer discretionary industry

The industry internationalisation model shows that the majority of the respondents believe a contractual or sole venture to be the most commonly used entry mode. The firms who answered that high control entry mode is most used also believe that a high degree of FSA and local representation is important. This corresponds with the model. The company that believe franchising to be the most commonly

used entry mode answered that the need to have local representation is very high. A way to reduce risk when entering a new market is to franchise, and still getting close to customers.

We can conclude the analysis of the consumer discretionary industry by noticing that the industry internationalisation model work relatively well when it describes the companies' entry mode. A majority of the respondents chose an entry mode that corresponds with their perceived need of local representation. It can be assumed that location factor is an important influencing factor when analysing the consumer discretionary industry's choice of entry mode. This strengthens the validity of our model.

6.6 Building Industry

When analysing the building industry we found that it was very important to be locally represented on the new market, this due to different laws but also to take advantage of natural resources. From the participants in our survey there were 10 companies that belonged to the building industry which answered our questionnaire. Their answers can be seen in the table below:

Table 6.6.1: Result from the building industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
1	15	Internal	2	3	Joint Venture / Sole Venture	Export
2	250	Internal	6	7	Joint Venture / Sole Venture	Joint Venture
3	40	Internal	7	6	Joint Venture / Sole Venture	Sole Venture
4	2000	Internal	5	6	Joint Venture / Sole Venture	Joint Venture
5	900	Internal	7	7	Joint Venture / Sole Venture	Sole Venture
6	225	Internal	4	5	Joint Venture / Sole Venture	Sole Venture
7	6000	Internal	6	5	Joint Venture / Sole Venture	Sole Venture
8	12	Internal	5	5	Joint Venture / Sole Venture	Sole Venture
9	1700	Internal	5	6	Joint Venture / Sole Venture	Sole Venture
10	40	Internal	1	1	Joint Venture / Sole Venture	Sole Venture

Of the 10 companies the diversification in number of employees was large. The largest company had 6000 employees while the smallest company had only 12. However, it does not seem like the number of employees affect the entry mode decision in the building industry. When choosing how the companies in the industry use their FSA, all companies answered that they would prefer to use it internally. This answer corresponds with proposition 9 about the building industry (industrial sector). We proposed in proposition 10 that it is important to be represented locally in the building industry. When reviewing the result of the survey it is clear that this is an accurate assumption. A majority of the respondents answer that a high need for local representation is significant for the building industry.

Since we have a larger sample, we can provide some statistical analysis of the industry (see table 6.6.2.)

Table 6.6.2: Statistical analysis of the building industry

	Degree of firm specific assets	Need of local representation
Mean value	4,8	5,1
Median	5	5,5
Standard deviation	1,99	1,85

Table 6.6.2 shows that the mean value and median of the degree of FSA is approximately 5. This means that the degree of FSA is statistically relatively high. This motivates the majority's decision to use the FSA internally. The need of local representation is statistically high, approximately 5. This also motivates the decision to use a high commitment entry mode. According to our model and survey, we can state that companies in the building industry are presumed to use a well motivated entry mode.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration

of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

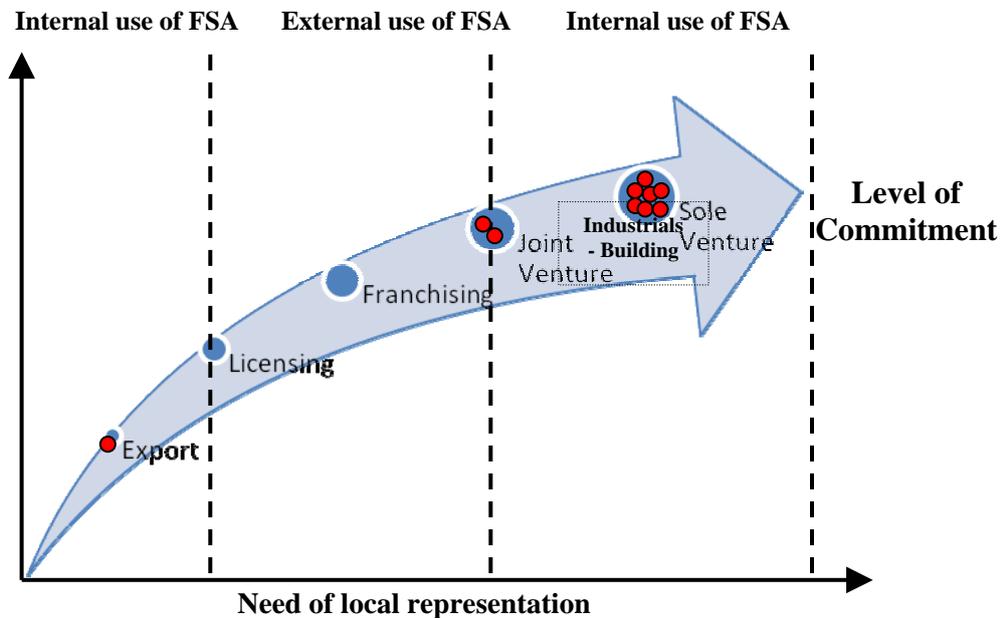


Figure 6.6.1: The predicted/actual entry mode in the building industry

From this figure it is easy to see that the propositions and predictions from the industry internationalisation model were right. The majority of the companies stated that the most used entry mode in the building industry was joint or sole venture, which was predicted. An exception was the company that presumed export to be most used.

The second model shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

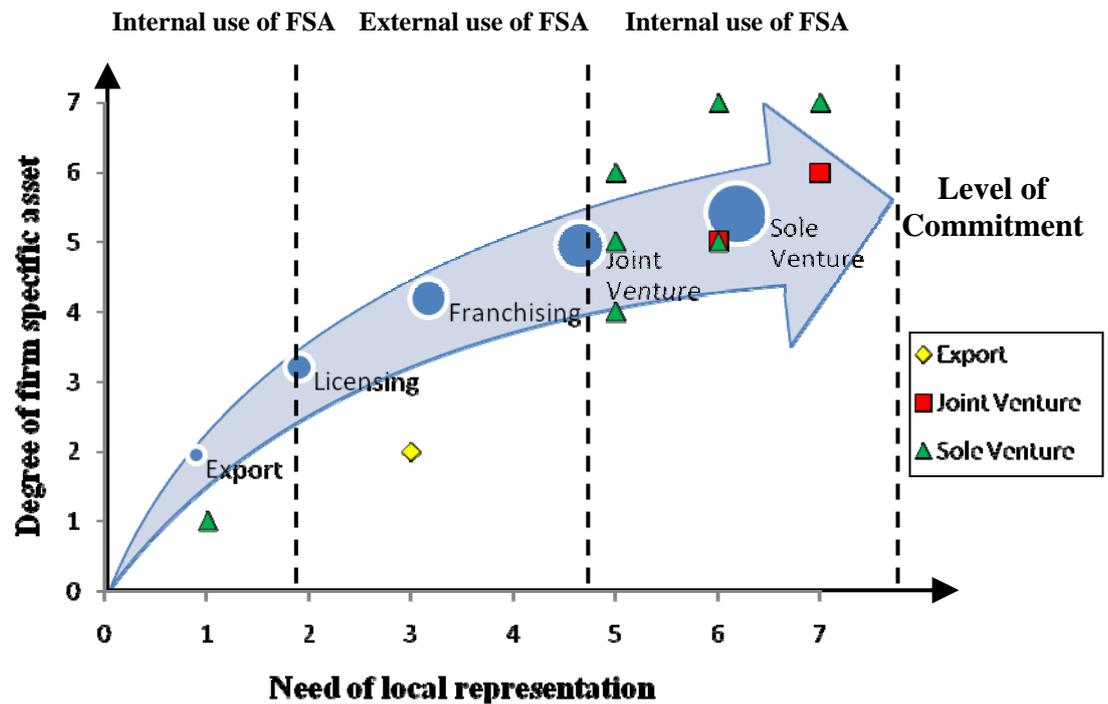


Figure 6.6.2: The suggested/actual entry mode in the building industry

The majority of the companies in the building industry have answered that it is important to be locally represented, and that joint venture or sole venture is most preferred. The company which answered that it is not important to be locally represented in the building industry but that sole venture was most used as entry mode could be challenged. If it is not important to be locally represented in a market an exporting entry mode would be favoured, according to the model. A large majority choose an entry mode that well motivated by their degree of FSA and need for local representation.

We can conclude the analysis of the building industry by noticing that the industry internationalisation model work very well when it describes the companies' entry mode. A majority of the respondents chose an entry mode that corresponds with their perceived need of local representation and their degree of FSA. It can be assumed that location factor is an important influencing factor when analysing the building industry's choice of entry mode. These two factors appear to be very influencing when building companies choose a foreign market entry mode.

6.7 Manufacturing

From the participants in our survey there were 9 companies that belonged to the manufacturing industry. In our discussion earlier about the industry we stated that manufacturing companies have a high degree of FSA. What this means according to our model is that they would prefer to use those specific assets internally. The companies then have a choice of which entry mode to use, to export or to use an investment mode. Using export or an investment mode keeps the firms specific assets within the company.

Table 6.7.1: Result from the manufacturing industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
1	1200	Internal	4	7	Export	Export
2	3500	Internal	3	1	Export	Export
3	100	Internal	4	1	Export	Export
4	16	Internal	5	6	Export	Joint Venture
5	10	External	7	7	Export	Export
6	1000	Internal	6	7	Export	Export
7	1350	Internal	6	6	Export	Export
8	500	Internal	5	2	Export	Export
9	102	Internal	6	5	Export	Export

In table 6.7.1 we can see that eight of the nine manufacturing firms believe that companies are internalising their FSA in this industry. This answer corresponds with proposition 9 about the manufacturing industry (industrial sector). We proposed in proposition 11 that it is not important to be represented locally in the manufacturing industry. When reviewing the result of the survey it is clear that this is not an accurate assumption, even though our interview person in this industry argued that there is a low need of local representation. A majority of the respondents answer that a high need for local representation is significant to manufacturing companies.

Since we have a larger sample, we can provide some statistical analysis of the industry (see table 6.7.2 on the next page).

Table 6.7.2: Statistical analysis of the manufacturing industry

	Degree of firm specific assets	Need of local representation
Mean value	5,1	4,7
Median	5	6
Standard deviation	1,27	2,60

Table 6.7.2 shows that the mean value and median of the degree of FSA is approximately 5. This means that the degree of FSA is statistically relatively high. This motivates the majority's decision to use the FSA internally. The need of local representation is statistically high. This contradicts with the decision to use a low commitment entry mode, in this case export. As the companies believe the need for local representation to be high, a higher commitment entry mode should be preferred. However, the standard deviation is rather high which can explain their choice of an exporting entry mode.

Our proposition state that companies in the manufacturing industry should choose an export entry mode. When we look at the results from our survey we can see that the answers correspond very well with our proposition. Eight out of nine manufacturing companies believe that an exporting mode would be most commonly used in their industry. Only one out of nine companies believed another entry mode, joint venture, to be more commonly used.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

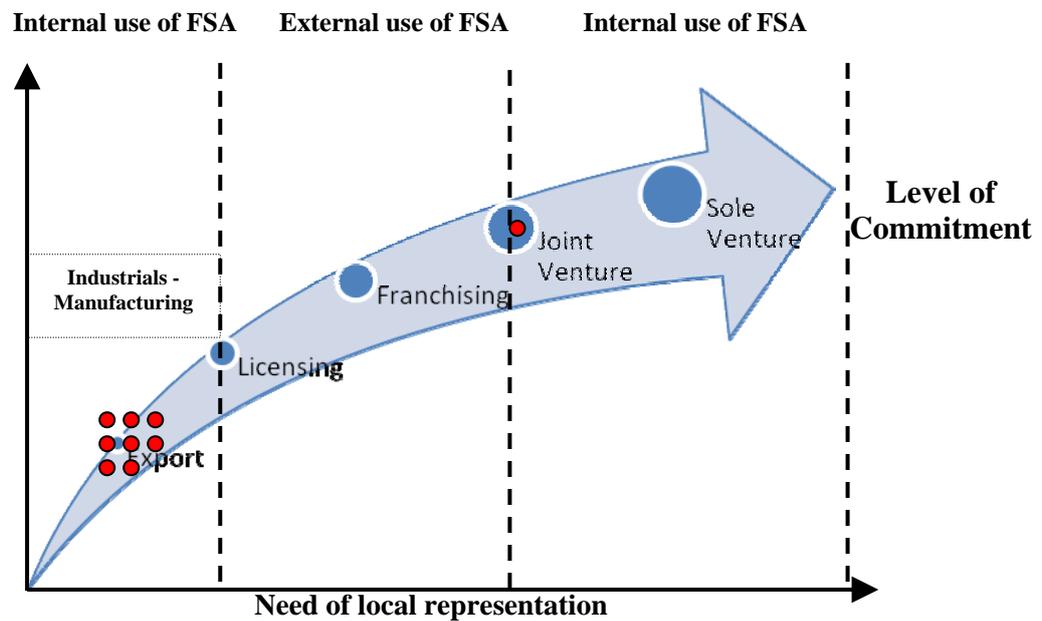


Figure 6.7.1: The predicted/actual entry mode in the manufacturing industry

From this figure it is easy to see that the proposition and predictions of the industry internationalisation model were right for the manufacturing industry. The model predicted that manufacturing companies would use exporting as an entry mode. In the figure we can see a clear cluster where firms chose what they believed to be most commonly used entry mode in their industry, namely export.

The model on the next page shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

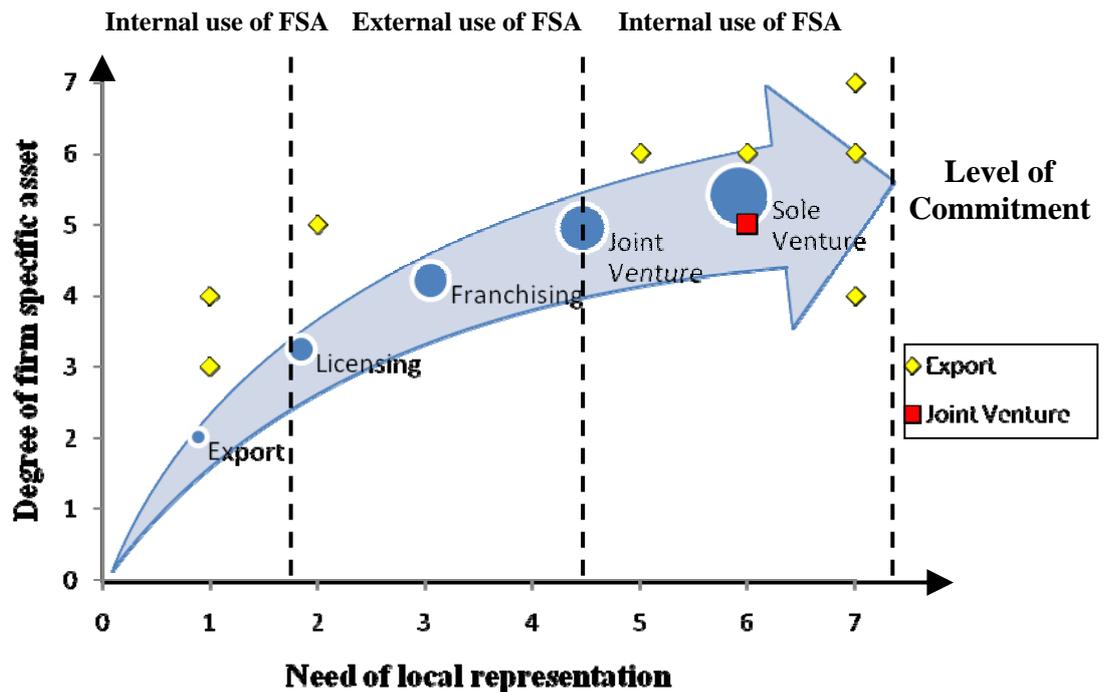


Figure 6.7.2: The suggested/actual entry mode in the manufacturing industry

According to our model the company that chose joint venture believed that FSA and local representation was important, placing them at the investment entry mode side of the model. We said that the manufacturing companies would prefer to keep their FSA in-house. In our model we can clearly see that is the case. What the model cannot explain is why some companies believe local representation to be important when they answer that the most commonly used entry mode is export.

We can conclude the analysis of the manufacturing industry by noticing that the industry internationalisation model does not fully explain how companies in the manufacturing industry enter new markets. The respondent's answer about the industries' degree of FSA and need of local representation should result in a high commitment entry mode, according to the model. Our predicted entry mode for the manufacturing industry was a low commitment entry mode which proved to be the case, by the choice of actual entry mode.

6.8 Service

We argued earlier in chapter four when we presented our propositions that the service industry had their FSA in know-how, management- and organisational skills. We noticed that they did not have a material product to sell which makes it

difficult for them to export and license. Of course they can “export” their skills for other companies to implement but we consider that type of entry mode to be equally to franchise. Many companies in the service sector like McDonalds and Starbucks, to name some, have successfully engaged in franchising and we believed that to be one of the most common and preferred entry modes in the service industry. Out of 82 respondents in the survey, 6 of them belong in the service industry. Their answers can be seen in the table below.

Table 6.8.1: Result from the service industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of location representation	Predicted entry mode	Actual entry mode
1	2000	Internal	5	7	Franchising / Joint Venture	Joint Venture
2	900	Internal	6	6	Franchising / Joint Venture	Joint Venture
3	20	Internal	5	5	Franchising / Joint Venture	Sole Venture
4	16000	External	5	7	Franchising / Joint Venture	Sole Venture
5	110	Internal	3	5	Franchising / Joint Venture	Sole Venture
6	3000	Internal	6	7	Franchising / Joint Venture	Sole Venture

As we can see in table 6.8.1 a large majority of service companies believe that companies are internalising their FSA in the industry. This answer does not correspond with proposition 13 about the service industry, in which we argued that service firms should prefer to use their FSA externally. We proposed in proposition 12 that it is important to be represented locally in the service industry. When reviewing the result of the survey it is clear that this is an accurate assumption. A majority of the respondents answer that a high need for local representation is significant to manufacturing companies. From the result above it is clear that the number of employees in the company, and with that company size, has no influence on the entry mode decision.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration

of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

The model shows that we thought that service companies would prefer licensing or joint venture depending if they use their FSA internally or externally. The model shows that all companies have chosen a high commitment entry mode.

**Degree of firm specific assets
(in relation to other industries)**

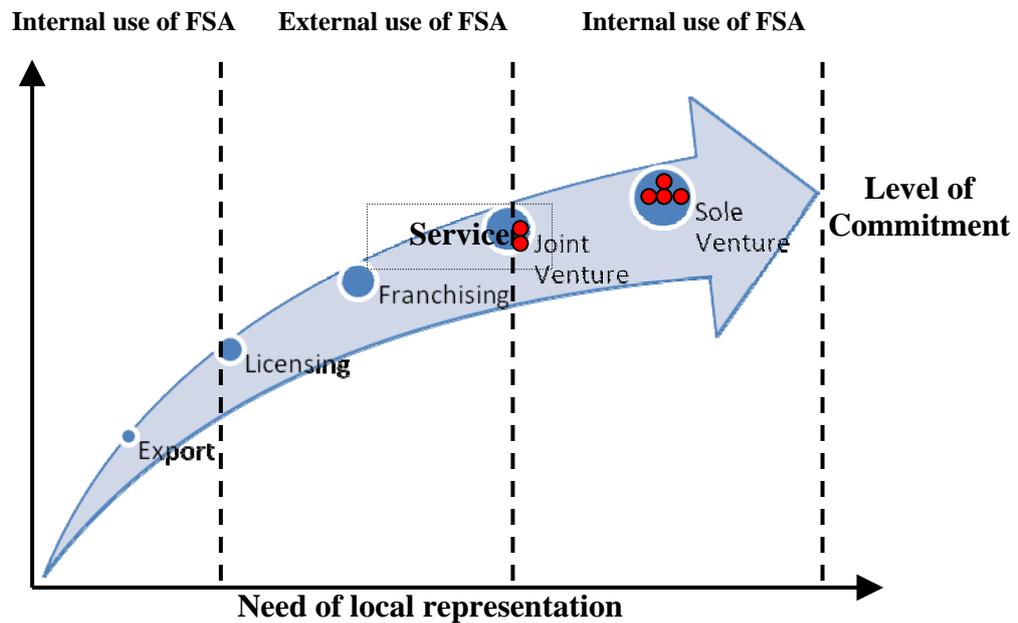


Figure 6.8.1: The predicted/actual entry mode in the service industry

From this figure it is easy to see that the propositions and predictions from the industry internationalisation model were wrong. The majority of the companies stated that the most used entry mode in the service industry was joint or sole venture, which was partly predicted. However, we argued that service companies would favour a contractual entry mode.

The model on the next page shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

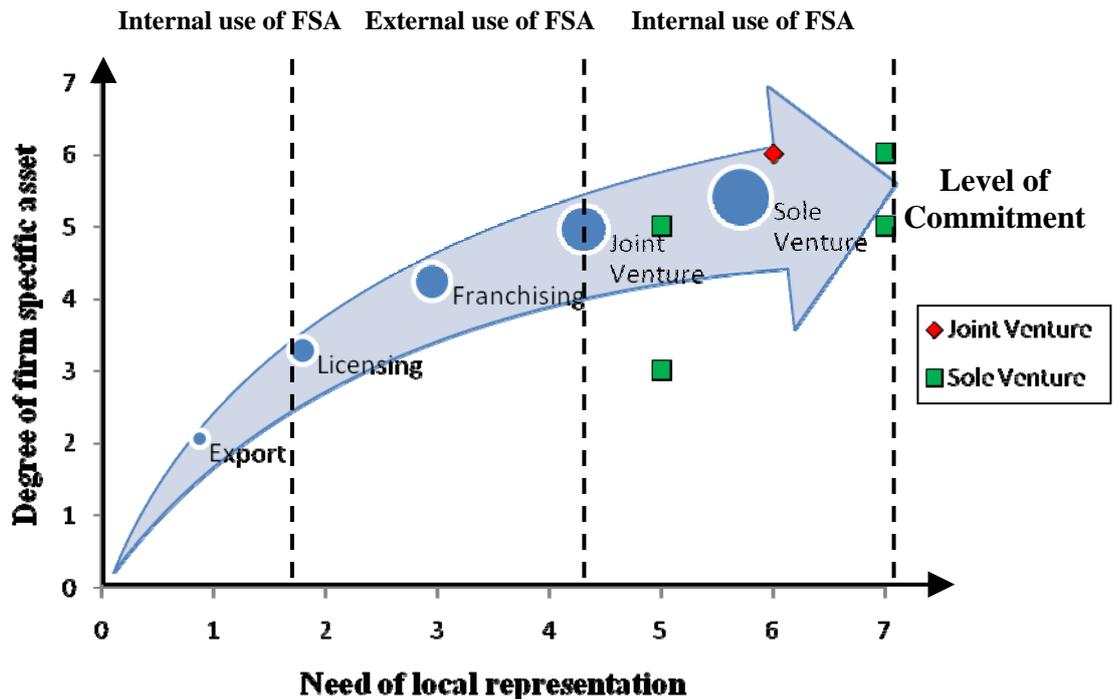


Figure 6.8.2: The suggested/actual entry mode in the service industry

All companies answered that local representation is important in the service industry. They also consider the degree of FSA to be medium to high in relation to other industries. This corresponds with our predictions that the need of local representation is high because the need to diversify the product or service to the local taste and preferences is important. We also argued that the degree of FSA is medium to high, which can be seen in the first model above. However, we thought that service companies preferred to use their FSA externally in order to keep costs a lower level. Clearly we can see that this was not the case. All companies chose to use their FSA internally with either a sole venture, as the majority did, or to partially use their FSA externally to a small number of partners in a joint venture.

We can conclude the analysis of the service industry by noticing that the industry internationalisation model work very well when it describes service companies' entry mode. A large majority of the companies choose an entry mode that matched their degree of FSA and their need of local representation. This can

arguably be translated to that the factors in the model helps to explain service companies' choice of entry mode. However, our predicted entry mode was wrong.

6.9 Transport

We discussed that companies in the transport industry often are small to medium sized companies. Their FSA are in know-how, experience, organisational skills and brand name. We believed that they would prefer a high commitment entry mode, such as joint venture and sole venture. If the company had large financial resources, they would prefer a sole venture in order to minimize the risk that a joint venture brings. Out of 82 participants in the survey, 4 belong to the transport industry. This is unfortunately a small number of respondents which makes it difficult to analyse this industry. The result of the analysis may not be reliable to the whole industry. Their answers can be seen in the table below:

Table 6.9.1: Result from the transport industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
1	20	<i>Internal</i>	5	1	Joint Venture /Sole Venture	<i>Export</i>
2	300	<i>External</i>	7	2	Joint Venture/ Sole Venture	<i>Joint Venture</i>
3	21	<i>Internal</i>	7	2	Joint Venture / Sole Venture	<i>Sole Venture</i>
4	4000	<i>Internal</i>	7	7	Joint Venture / Sole Venture	<i>Sole Venture</i>

The companies that participated had very diverse answers. Two companies were small sized, one medium sized and one large sized company in terms of the number of employees. The result was somehow surprising as the FSA was very high and the need of local representation was low. We predicted the opposite with medium degree of FSA and a high need of local representation. Company number 4 however, answered that the need of local representation was high, which we stated in proposition 15. Despite the low need of local representation, three companies chose a high commitment entry mode. According to the eclectic theory that we presented earlier, if the need of local representation is low, then companies should choose an entry mode with lower risk.

In proposition 15 we also stated that it was easy to acquire companies in the transport industry since it consists of several small companies. That should give the larger companies an opportunity to choose an investment entry mode to a relatively low cost. As we can see, two of the companies choose an investment entry mode. We also proposed that if a company did not possess high financial resources, they should prefer another high commitment entry mode such as joint venture. The table shows that 3 respondents choose sole venture or joint venture. However, as the majority of the companies do not believe that it is important to be represented locally, it does not correspond with the chosen entry mode.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

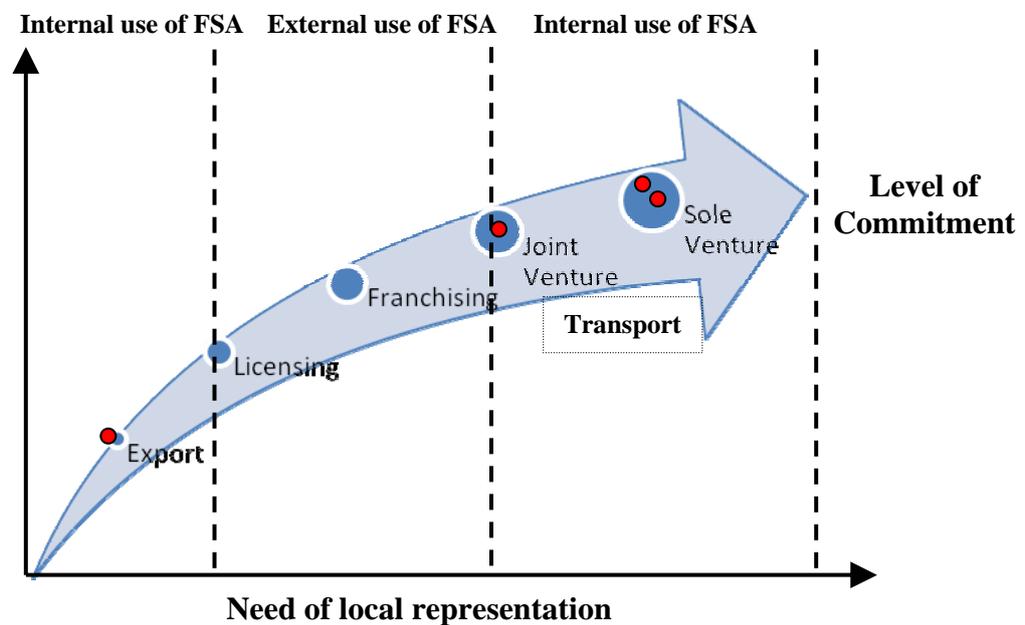
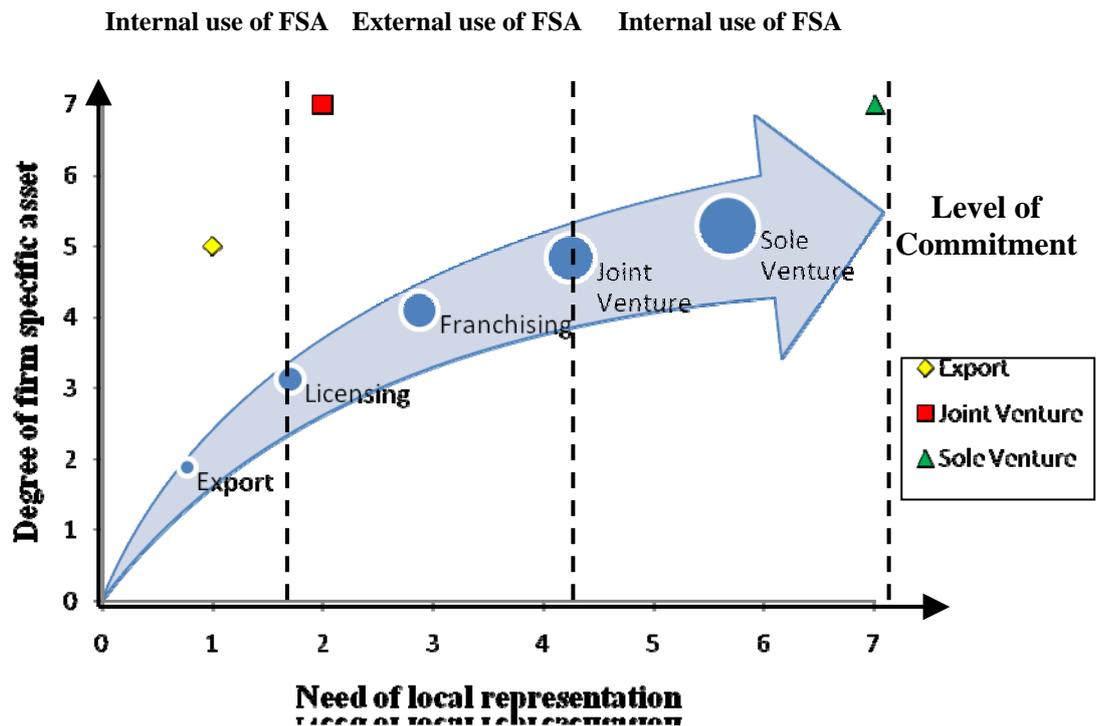


Figure 6.9.1: The predicted/actual entry mode in the transport industry

The model shows that transport companies would prefer joint venture or sole venture depending largely on their financial resources. The model shows clearly

that a majority have chosen joint venture or sole venture. Unfortunately the “majority” consists of only three companies so the result is not valid.

The second model shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.



(Some of the respondents in the survey had the same answers, resulting in that they are illustrated on top of each other in the model above).

Figure 6.9.2: The suggested/actual entry mode in the transport industry

All companies have high FSA. However, companies 1, 2 and 3 have low need of local representation. They should, according to our model, prefer an entry mode with low commitment. This means that company 1 has chosen an entry mode that is appropriate, according to our model. Company 2 and 3 however, have chosen joint venture and sole venture which is not in accordance with their answer as they believe that local representation is not important in the transport industry. Company 4 have chosen sole venture and this is appropriate considering their need of local representation and their high FSA.

We can conclude the analysis of the transport industry by noticing that the industry internationalisation model fails to explain the choice of entry mode for the transport industry. The sample group was too small for the result to be valid. It is clear that companies in the transport industry choose an entry mode based on other factors than in our model. Otherwise the companies should not have chosen a joint venture or sole venture since their need of local representation was low. However, our prediction that the transport companies would prefer a high commitment entry mode was accurate but evidently not the reasons why.

6.10 Information Technology

From the participants in our survey there were 16 companies that belonged to the Information Technology (IT). The IT sector covers a number of businesses and is an extremely technology based industry. The FSA are know-how and especially technology. In table below we can see what the IT firms answered in our survey:

Table 6.10.1: Result from the IT industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of local representation	Predicted entry mode	Actual entry mode
1	550	Internal	6	3	Export/Licensing	Export
2	500	Internal	7	5	Export/Licensing	Export
3	170	Internal	6	7	Export/Licensing	Export
4	550	Internal	6	7	Export/Licensing	Export
5	1300	Internal	4	4	Export/Licensing	Export
6	70	External	5	6	Export/Licensing	Joint Venture
7	550	External	4	7	Export/Licensing	Joint Venture
8	105	Internal	1	1	Export/Licensing	Joint Venture
9	20	Internal	7	5	Export/Licensing	Joint Venture
10	95	Internal	5	6	Export/Licensing	Joint Venture
11	40	External	6	5	Export/Licensing	Joint Venture
12	15	Internal	1	1	Export/Licensing	Joint Venture
13	15	External	6	2	Export/Licensing	Sole Venture
14	31	Internal	5	5	Export/Licensing	Sole Venture
15	170	Internal	4	7	Export/Licensing	Sole Venture
16	150	Internal	6	6	Export/Licensing	Sole Venture

We can see in table 6.10.1 that 12 of the 16 IT firms believe that companies are internalising their FSA in the industry. This result corresponds with proposition

16 about the IT industry, in which we argued that IT firms should prefer to use their FSA internally and under control. In addition, the companies' answer on the most common way to use their FSA in the industry correspond relatively well with the actual entry mode. We proposed in proposition 17 that it is not important to be represented locally in the IT industry. When reviewing the result of the survey it is clear that this is an inaccurate assumption. A majority of the respondents answer that a high need for local representation is significant to IT companies. From the result above it is also obvious that the number of employees in the company, and with that company size, has no influence on the entry mode decision. That is, larger firms with larger financial resources should tend to invest.

From the 16 participants in the survey all but two answered that they believe it is important to have a medium or high degree of FSA. Eleven of the 16 IT firms answered that they believe that high level of control entry mode, joint and sole venture, would be most commonly used. The result fits our model in a good way.

Since we have a larger sample, we can provide some statistical analysis of the industry (see table 6.10.2.)

Table 6.10.2: Statistical analysis of the IT industry

	Degree of firm specific assets	Need of local representation
Mean value	4,9	4,8
Median	5,5	5
Standard deviation	1,81	2,07

Table 6.10.2 shows that the mean value and median of the degree of FSA is statistically high. This motivates the majority's decision to use the FSA internally. This also confirms our proposition. In addition the need of local representation is statistically relatively high. This motivates the majority's decision to use a high commitment entry mode. However, there are five companies that believe that export is the most common entry mode in the IT industry. This does not correlate with their perception about the need for local representation and their high FSA.

In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

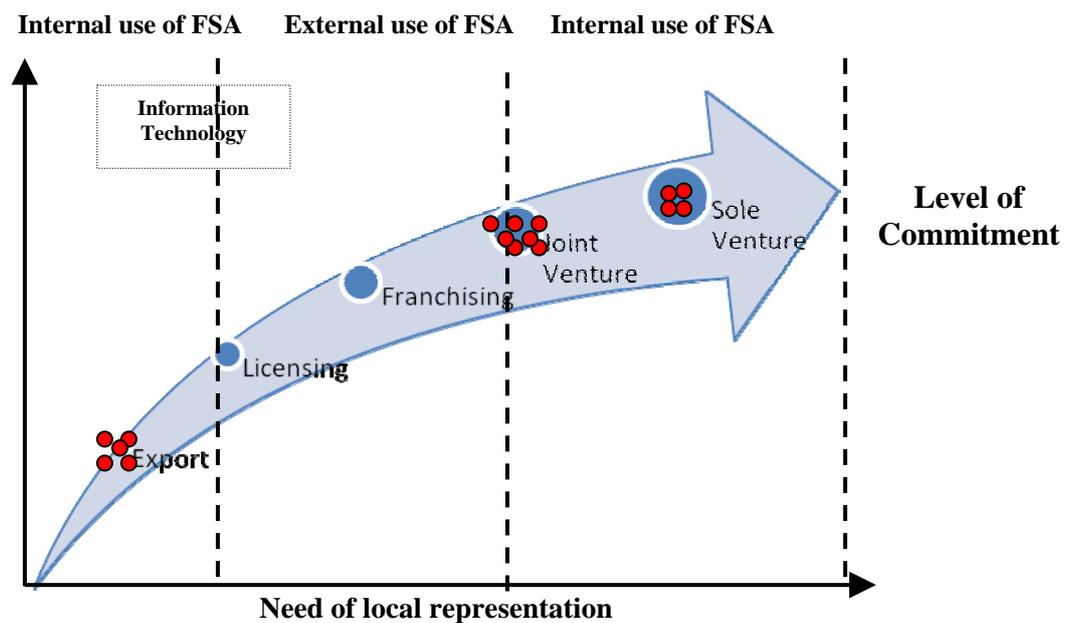


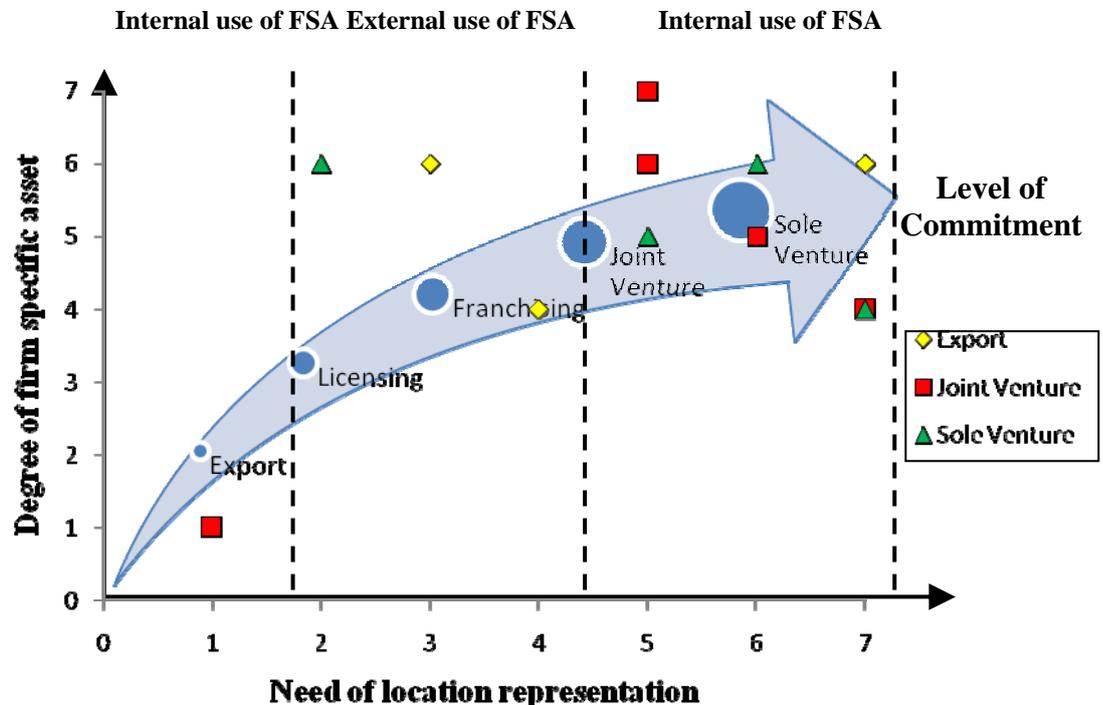
Figure 6.10.1: The predicted/actual entry mode in the IT industry

Since companies in the IT sector are often small entrepreneurial companies with small financial resources and often low international experience, not all companies in the IT sector should favour an entry mode with high level of control. A high control entry mode might be too expensive and risky. The products in the IT sector are often patented or have a high value-to-weight ratio.

From the 16 firms that participated in the survey five companies answered that exporting would be the most commonly used entry mode for the IT industry. There is a significant distinction between the firms when it comes to number of employees. Our arguments that IT firms often are small and should favour a low commitment entry mode contradict the results of the survey. The big firms with many employees believe export to be the most commonly used entry mode. The

small firms with fewer employees believe that a joint or sole venture is the most commonly used entry mode. This is a very interesting result that can be examined with further studies. Proposition 17 derived from a discussion that IT companies have a low need of being locally represented, since they use technology to serve their customers. Many IT companies are internet based or at least use the internet when serving new markets, they can be based on one specific location and yet serve a wide market. This reduces the need to engage in a sole or joint venture. If we look at the result from the survey we find that there are only three firms that do not believe local representation to be important. The interesting thing about the answers of these three companies is that they all believed joint and sole venture to be the most commonly used entry mode. This contradicts with our model.

The second model shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.



(Some of the respondents in the survey had the same answers, resulting in that they are illustrated on top of each other in the model above.)

Figure 6.10.2: The suggested/actual entry mode in the IT

In the figure we can see that 14 of 16 companies believe that the IT industry has high specific assets compared to other industries. A question arises when the five companies that chose export as an entry mode also believe that it is important to be represented locally. The IT sector might be too complex to analyse all companies together.

We can conclude the analysis of the IT industry by noticing that the industry internationalisation model work relatively well when it describes IT companies' entry mode. A majority choose an entry mode that matched their degree of FSA and their need of local representation. This can arguably be translated to that the factors in the model helps to explain IT companies' choice of entry mode. However, our prediction that IT companies would prefer a low commitment entry mode was inaccurate.

6.11 Energy

When analysing the energy sector we found a close connection to the materials sector in producing the products. Both industries have an importance of being where the natural resources are. For companies in the energy sector it is also important to be close to the customers. In our survey there were three participants that belonged to the energy sector and the following table shows their result:

Table 6.11.1: Result from the energy industry

Company	Employees	Internal/External use of FSA	Degree of firm specific assets	Need of location representation	Predicted entry mode	Actual entry mode
1	133	Internal	7	6	Joint Venture / Sole Venture	Joint Venture
2	40	Internal	5	3	Joint Venture / Sole Venture	Joint Venture
3	7	Internal	5	4	Joint Venture / Sole Venture	Joint Venture

There is a large difference in the number of employees in the three companies. Even so, all companies chose that joint venture was most used in the energy sector which could reflect that the size of the company does not affect the entry mode decision. When answering which way companies in the energy sector use their

FSA all three companies chose internal. This means that the information and know-how should stay in the company, and when choosing joint venture, as all companies have done, the information is kept relatively secure within the walls of the company. This corresponds with proposition 18 that energy companies would prefer to use their FSA internally.

As mentioned in proposition 19, it is important in this industry to be locally represented on a new market to control the natural resources. In the model on the next page you can see the answers of the participants, in the actual choice of entry mode. The models show which entry mode the companies choose and which entry mode we predicted. Notice that we take no consideration of how high or low their FSA and their need for local representation are. We only show graphically which entry mode they chose.

**Degree of firm specific assets
(in relation to other industries)**

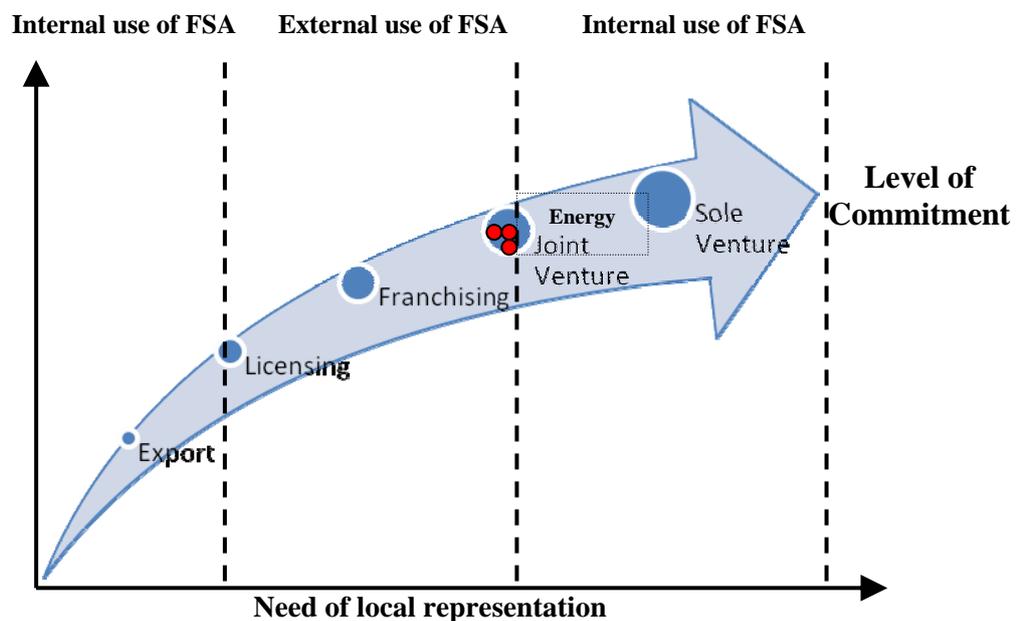


Figure 6.11.1: The predicted/actual entry mode in the energy industry

It is easy to see the result from the propositions in the figure compared to what the respondents presumed to be the most used entry mode in the industry. All participating companies stated that the most used entry mode in the energy sector was joint venture, which was predicted together with a sole venture.

The model below shows the participating companies degree of FSA and their need of local representation. In the model you can see which entry mode that the companies should choose according to our model and theories. The colours show what their actual entry mode was.

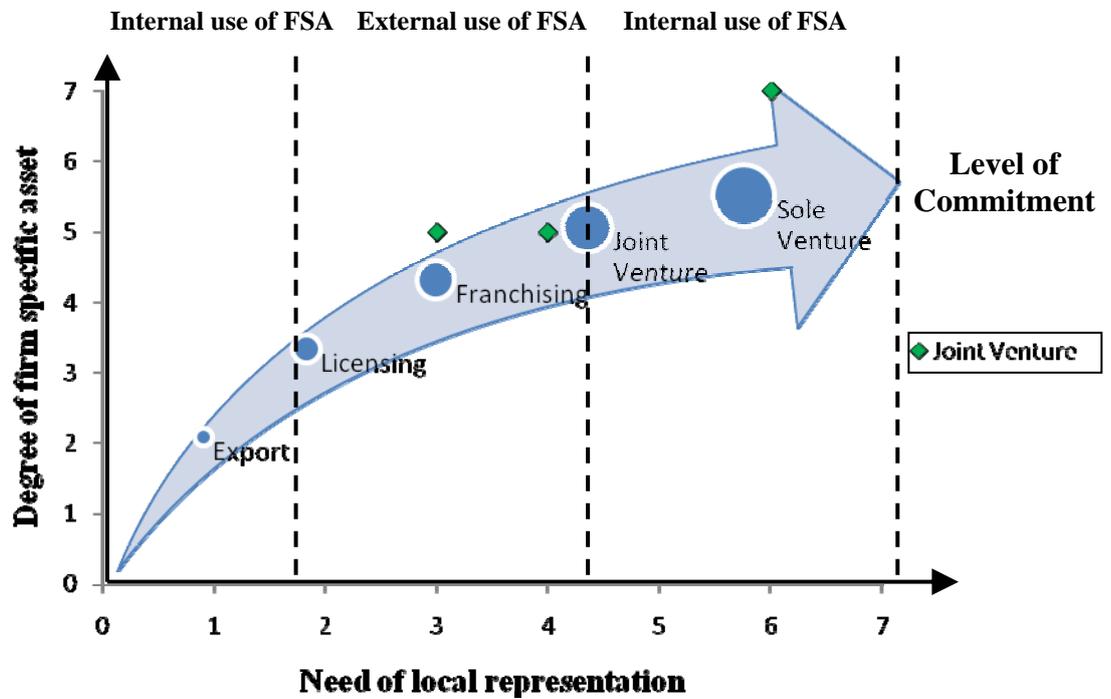


Figure 6.11.2: The suggested/actual entry mode in the energy industry

In this figure we see how the companies relate the FSA in the energy industry to other industries, and the need of local representation. One of the companies matches how the industry internationalisation model predicted the need of local representation. While the other two companies better match the FSA which was predicted. Again we can see that all three companies presumed that joint venture is most used in the industry, however we assumed that the need for local representation was higher.

We can conclude the analysis of the energy industry by noticing that the industry internationalisation model works relatively well when it describes energy companies' entry mode. All companies chose the predicted entry mode and as the second model showed, the companies choose an entry mode that matched their

degree of FSA. However, the need of local representation was a bit lower than predicted.

6.12 Conclusion/Summary

After reviewing the analysis of the result from the survey, the industry internationalisation model needed some configuration. In chapter four we created an initial model that illustrated which entry mode we believed to be most common in the different industries. This model was based on our propositions and analysis of the different industries. The result from the survey indicated that the factors from our model affect some industries to a different extent than we first anticipated. Below we show the initial industry internationalisation model with the industries at their original position:

Degree of firm specific assets
(in relation to other industries)

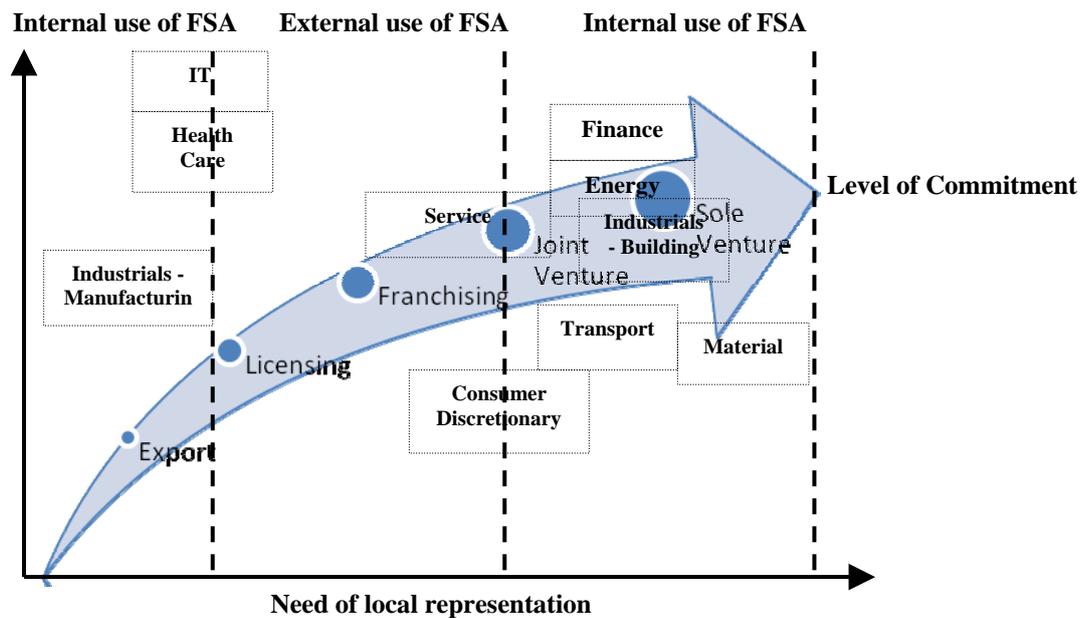


Figure 6.12.1: The initial Industry Internationalisation model

We will present the key conclusions from our analysis for each industry. We will then configure the model so that it reflects the reality in a better way. As we discussed in the previous analysis section, some industries entry mode could not be described by only using the factors in the industry internationalisation model. However, we found that the factors were very influencing in some industries'

choice of foreign market entry mode. We found that especially the need for local representation was a good factor to analyse in some industries.

Finance: The industry internationalisation model does not explain how companies in the finance industry enter new markets. The sample was too small to create any valid conclusion. Our predicted entry mode for the financial industry was proved to be right. The degree of local representation was lower than expected.

Material: The model is not applicable to the material industry. The result shows that there are other factors that are more important to these companies. The sample was too small to make any valid conclusion. The respondents' answers contradicted one another. This leads to that we do not change the material industries' place in the final model

Healthcare: The model is relatively applicable when it describes healthcare companies' entry mode. Especially the need of local representation factor works well in analysing the healthcare industry. The high FSA could favour exporting instead of licensing. A majority choose the predicted entry mode.

Consumer discretionary: The model explains relatively well this industry's entry mode. A majority of the respondents chose an entry mode that corresponds with their perceived need of local representation. The location factor seems to be an important factor when analysing this industry's choice of entry mode.

Building: The model describes the building industry's entry mode very well. A majority of the respondents chose an entry mode that corresponds with their perceived need of local representation and their degree of FSA. Both these factors seem to be important when analysing the building industry's choice of entry mode.

Manufacturing: The model does not explain how companies in the manufacturing industry enter new markets. The respondents' answers should result in a high commitment entry mode. Our predicted entry mode proved to be the right but the model fails to explain it.

Service: The model describes the service companies' entry mode very well. A large majority of the companies choose an entry mode that matched their degree of FSA and their need of local representation. These factors appear to be important influencing factors when analysing service companies' choice of entry mode. However, our predicted entry mode was wrong.

Transport: The model fails to explain the choice of entry mode for the transport industry. Transport companies choose an entry mode based on other factors than the ones in our model. However, our prediction that the transport companies would prefer a high commitment entry mode was accurate but evidently not the reasons why.

IT: The model explains the IT companies' entry mode relatively well. A majority choose an entry mode that matched their degree of FSA and their need of local representation. These factors can be seen as good factors to analyse the IT industry's choice of entry mode with. However, our prediction that IT companies would prefer a low commitment entry mode was inaccurate.

Energy: The model works relatively well when it describes energy companies' entry mode. The companies choose an entry mode that matches their degree of FSA. The FSA factor seems to influence the industry's entry mode decision. The location factor does not influence this industry as much as predicted. However, all companies chose the predicted entry mode.

Below we present the final industry internationalisation model in which we have corrected the industries' different perceived entry mode. To summarise we can argue that the need of local representation works well in describing several industries' choice of foreign market entry mode.

**Degree of firm specific assets
(in relation to other industries)**

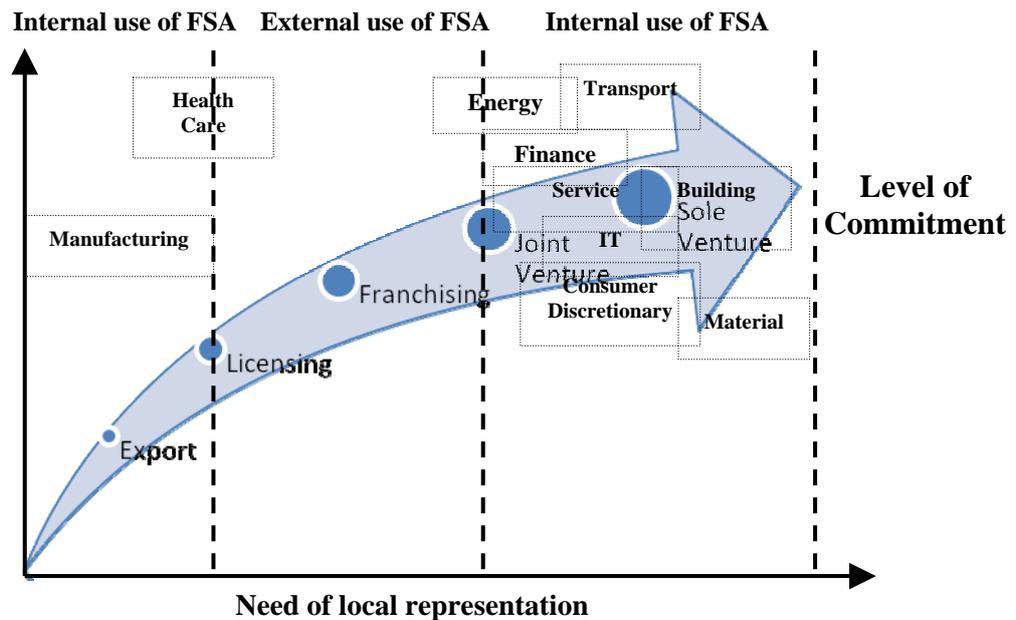


Figure 6.12.1: The final Industry Internationalisation model

Chapter 7: Conclusion

In chapter 7 the dissertation will be summarised. The applicability of the industry internationalisation model is discussed. In addition, criticism to the methodology will be presented together with modifications, practical implementations and future research.

7.1 Summary of the dissertation

This dissertation focuses on the internationalisation of companies, which mode of entry companies' use when entering a new market, with a focus on industries. The research on industries' choice of foreign market entry mode is neglected in the internationalisation research. There are researchers that acknowledge differences between some industries, but we believe that a comprehensive model is lacking. The purpose of this dissertation was to analyse the most acknowledged theories on internationalisation and develop a model that can be tested on companies to see the applicability. We found that there are three schools of economics on internationalisation. We decided to study one theory in each school and the following theories was reviewed:

- The Uppsala Internationalisation model: a firm gradually extends their activities abroad over time and as knowledge develops, and with that the physical distance to markets increases (Johanson and Vahlne, 1977).
- Transaction Cost Analysis: focus is on the costs of a foreign market entry mode comparative to its objective (Anderson and Gatignon, 1986).
- The Eclectic Paradigm: the advantages in the organisation, its location and internationalisation influence the choice of entry mode (Dunning, 1980).

Since we believe that the Eclectic Paradigm is the theory that explains the internationalisation process the best, it influenced the development of the industry internationalisation model. However, all theories were a base for the development

of our model. The purpose of the model is to explain industries' entry mode decision. The explanatory factors in the model are the degree of firm specific assets, degree of local representation and how the company use the firm specific asset. If a company has a high specific asset, and a need to be locally represented on a new market, the company should select an entry mode with higher commitment so that the knowledge will stay within the company. When a company has no need to use the FSA internally, it could use it externally, as in licensing or franchising. When the need of local representation is low, the company would prefer an exporting entry mode, with this the knowledge still stays within the company. Together with the industry internationalisation model we created propositions about each industry that could explain their view on firm specific asset, degree of local representation and how to use the firm specific asset.

To test the model, and with that the propositions, we conducted an internet-based survey. The purpose of the survey was to see if the model was working and if it could explain the entry mode decision of industries. The participants were contacted through an e-mail with a link to the web site www.modeofentry.com where they could find and fill out the questionnaire, but also find information about the dissertation and its authors. Our sample consisted of 266 companies on the Swedish stock market. It was small- and medium-sized companies that belonged to the Small Cap, Mid Cap and First North on the stock-exchange list. We received no answer from 171 companies. Six companies answered that they chose not to participate. 82 companies participated in the survey which is a response rate of 31.7 %. The result of the survey will be presented in the next part.

7.2 Applicability of the model

The industry internationalisation model has three parts, the degree of firm specific assets, the need of local representation and how the company use the firm specific asset, internally or externally. The result shows that all these three parts are important when explaining industries' choice of foreign market entry mode. Even though our research indicated that all parts influence the entry mode decision, one part was more decisive than the other.

Our result showed that *local representation* seemed to be most applicable and influencing. However, not all results on this part were significant. The majority of the industries chose an entry mode which corresponded with the actual entry mode. Even though the predicted entry mode was not always the result, the industries' choice of foreign market entry mode was often well motivated. It was also interesting to see that in industries that we believed to have a low need of local representation corresponded well with the actual entry mode.

The research indicated that *the degree of firm specific assets* was higher than we first expected. When reviewing the results we clearly see that a majority of the answering companies predicted a higher degree of FSA than expected. This could depend on various reasons, but we believed that it was difficult for the companies to understand what we meant by FSA. In addition, it could be incorrect to expect that a company has self-perception about the industry in relation to other industries, which was a large part with our approach

We also discussed that a company could use its FSA in two ways, *internally* and *externally*. In addition, what the company choose should affect the entry mode decision. From the result on this part we received a higher feedback than expected. A clear majority of the answers indicated that that the right entry mode was chosen according to our model. We stated that when a company use its FSA internally it could choose between an exporting or investment entry mode. The result indicated a great significance between how the company use its FSA and the chosen entry mode.

To summarise, our survey indicated that the industry internationalisation model can be relatively valuable when trying to explain industries' choice of foreign market entry mode. A large part of the industries were explained very well by the model, in some industries the choice of entry mode was partly explained, and in some industries the model did not work that well. Please keep in mind that a larger sample and a higher response rate in each industry could increase the applicability. In addition, the majority of the propositions about the industries were correct.

7.3 Modifications

We reviewed a lot of articles and theories on the subject of foreign market entry mode before creating the industry internationalisation model. There exists a large amount of research, and the majority are developments and extensions of the most acknowledged theories. Our purpose was to develop a model that could explain and was comprehensive for all industries. Since we were most influenced by Dunning's Eclectic paradigm and the influence of ownership, location and internalisation on the entry mode decision we made a model with the same approach. When having only three influences on the entry mode decision it is easy to assume that we fail to see other important influences. However, when trying to make a comprehensive model, too many influences make the model ambiguous.

Our research indicated that not all industries' entry mode decision could be explained by the industry internationalisation model. However, on some industries the model seems to be applicable. The size of the sample could explain the incorrect results. In addition, how we operationalised the proposition could have affected the result. A different type of questions and information gathering could also have lead to another result. It is possible that a more profound research would have given other answers.

When analysing the results of the questionnaire we made a comparison between the industries. Since all industries are not the same and they use different technology, some are more capital-intense than others and some have a high need to be where the resources are, it could be wrong to compare them with each other. It may have been better to focus on a smaller sample of industries that is more equal and compare their results and entry modes. The propositions and assumptions we created were probably correct based on the research we made, however a more extensive research may have resulted in other propositions. It is possible that with a modified questionnaire and with another analysis, the validity could be improved.

7.4 Methodological criticism

Our research was conducted by reviewing three well-known theories of internationalisation and a survey. The questions in our survey made it possible to test the industry internationalisation model and if it could explain how industries internationalise. We made an internet-based questionnaire since we thought it would increase the number of participants and the response rate, and we got a relatively high response rate. However, by conducting the survey in this way we may have lost important information which could have been received when performing a deeper interview with representatives of a particular company. With a deeper interview we could also make sure that the participants understood the questions and alternatives in the survey, which we cannot be sure they did with the questions on the internet. By having a discussion with more people from different companies we could have received a deeper understanding of the factors that influence them, which entry mode that is most used and so forth. When having a number of interviews with representatives from one industry should have resulted in a deeper understanding of that particular industry. However, this would have taken much more time and since we tried to explain as many industries as possible it would have not worked under the circumstances of this project.

It would also have been interesting to review a larger selection of theories on internationalisation. Since there exist a large amount of theories and we only chose to focus on the most acknowledged researches and one theory of each school of economics, some important aspects and factors that influence industries could have been lost.

Our sample consisted of small and medium-sized companies on the Swedish stock market. When we received the result from the participants it was clear that it was not an equal proportion of answers in each industry. It could also be assumed that larger companies have another approach and thoughts about the entry mode decision in the industry. Even though we neglected the larger firms since we did not think they had any time or will to participate in our survey it would have been good to get their reflection. This would assumedly also increase the response rate in each industry, to get more statistical evidence if the industry internationalisation model is applicable.

Due to the time constraint the companies that participated in the survey only had approximately two weeks to answer the questionnaire. The companies received the follow-up letter as early as a week after the first handout. If the survey was conducted in an earlier stage in the process and under a longer period it would have been possible to get more answers, and get a higher response rate in each industry.

7.5 Future research

We have created what we call the industry internationalisation model with the purpose to explain industries' choice of foreign market entry mode. We conducted a survey to test the model and received partial support on the model and our research. The survey indicated that some industries could be explained by the industry internationalisation model. Since the field of industries' choice of foreign market entry mode is relatively neglected we tried to analyse a wide range of industries at the same time. It would be interesting to do further researches on the subject. With our research as a foundation the following researches can be made:

- Our survey is conducted on small and medium-sized companies that might have a different view on the subject than larger companies. Even though we had a relatively high response rate it would have been more interesting to do a larger survey and receive higher response rate in each industry.
- Something that we have encountered several times is the lack of depth in the dissertation. It would be interesting to dig deeper and have focus on one industry. This could result in additional influencing factors and a deeper understanding.
- Since we only investigated Swedish companies it would have been interesting to do a survey on companies in other countries, and see if there is a pattern between industries across country borders.

- Naturally there are many more factors that influence the entry mode decision than the ones in the industry internationalisation model. It would have been interesting to develop another model on other factors and test it.

7.6 Practical implementations

The industry internationalisation model can function as a guide for companies and people responsible of management for companies in the industries that was explained by the model. It could be used as a good overall view for companies regarding the need of local representation and how to use the firm specific asset. In addition, it can work as a decision basis for which mode of entry to choose.

The model could also be used to analyse other companies in the industry, by assuming which mode of entry the competitors would choose. Another way is to use the dissertation in an educational purpose, when reviewing industries mode of entry. It could also be used as a foundation for further research on the subject.

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Interviews

- Hammarlund, P-O, Unstructured personal interview, 2007
- Söderberg, U, Unstructured telephone interview, 2007
- Lindgren, O, Unstructured personal interview, 2007

Appendix 1: Letter and questionnaire

University of Kristianstad
Department of Business studies
291 88 Kristianstad

Dear Madams and Sirs

We know that your time is very valuable but we would really appreciate your help. It will only take 4 minutes of your time. Thank you!

We are three students who are writing our Bachelor thesis for our International Business studies at Kristianstad University in Kristianstad. The dissertation is about which type of method Swedish companies prefer to use when they enter foreign markets. We have created a new model that describes the internationalisation process of Swedish companies. Through a statistical survey we are going to test the validity of the model.

It is the survey we ask you to participate in. The questionnaire consists of 5 simple questions that will take a maximum of 2 minutes to answer. We have posted the questionnaire on our homepage www.modesofentry.com. We did this to guarantee your full anonymity (you will not enter the name of your company).

Click on the link to go straight to the survey. www.modeofentry.com

We would like to thank you in advance for your time and consideration. If you have any questions please do not hesitate to contact us.

Sincerely yours
Patric Hammarlund, David Hansson, Viktor Hansson.

Contact information: info@modeofentry.com

The mode of entry survey

Company information

Question 1

Which industry does your company operate in?

- | | | | |
|--------------------------|------------------------|--------------------------|----------------------------|
| <input type="checkbox"/> | Building | <input type="checkbox"/> | Manufacturing |
| <input type="checkbox"/> | Consumer Discretionary | <input type="checkbox"/> | Material |
| <input type="checkbox"/> | Consumer Staples | <input type="checkbox"/> | Telecommunication Services |
| <input type="checkbox"/> | Energy | <input type="checkbox"/> | Transport |
| <input type="checkbox"/> | Financial | <input type="checkbox"/> | Service |
| <input type="checkbox"/> | Health care | <input type="checkbox"/> | Utilities |
| <input type="checkbox"/> | Information technology | <input type="checkbox"/> | Other |

Question 2

How many employees does your company have?

Internationalisation

Question 1

Which mode of entry do you perceive to be the most used in your industry?

- | | | | |
|--------------------------|-------------------------------------|--------------------------|--------------|
| <input type="checkbox"/> | Export | <input type="checkbox"/> | Sole venture |
| <input type="checkbox"/> | Licensing | | |
| <input type="checkbox"/> | Franchising | | |
| <input type="checkbox"/> | Joint ventures / Strategic alliance | | |

