MASTERARBEIT / MASTER’S THESIS

Titel der Masterarbeit / Title of the Master‘s Thesis

„Market Entry Strategies And Resource-Based Theory“

verfasst von / submitted by

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angestrebter akademischer Grad / in partial fulfilment of the requirements for the degree of

Master of Science >MSc<

Wien, 2018 / Vienna 2018

Studienkennzahl lt. Studienblatt / degree programme code as it appears on the student record sheet:	A >066 914<
Studienrichtung lt. Studienblatt / degree programme as it appears on the student record sheet:	Masterstudium Internationale Betriebswirtschaft
Betreut von / Supervisor:	Univ.-Prof. Dr. Oliver Fabel, M.A.

Abstrakt

Viele Autoren haben sich mit Themen beschäftigt, die sich auf verschiedene Arten des Markteintritts und die Faktoren beziehen, die ihre Wahl beeinflussen, aber nur wenige konnten ihre Essenz durch die Entwicklung und den Vorschlag verschiedener Theorien, Rahmen und Konzepte bestimmen. Eine davon ist die Sichtweise basierend auf Ressourcen (Theorie). Das Hauptziel dieser Arbeit ist es, eine Erklärung, Beschreibung und Überprüfung der Wahl marktbasierter Methoden auf der Grundlage von ressourcenbasierter Theorie zu liefern. Grundsätzlich konzentriert sich RBV (Ressourcenbasierte Sichtweise) auf Unternehmen, Konkurenten und die Erfüllung von Unternehmenszielen sowie Zielen aus Sicht der Ressourcen.

Die Arbeit wurde gemäß der qualitativen Erforschung von Artikeln, Zeitschriften, Büchern und einzelnen Aspekten der Beobachtung ausgefertigt.

Schlüsselwörter: Art des Markteintritts, ressourcenbasierte Theorie

Abstract

Many authors have dealt with the subjects of market entry modes types and factors influencing its choice, but only a few managed to hit the core of it by developing and proposing different theories, frameworks and concepts. One of those is Resource-Based View (theory). The main objective of the thesis is to provide explanation, description and review the choice of market entry modes based on resource based theory. Basically, the RBV focuses on the company, competitors and success of company's targets and goals from a resource point of view.

The thesis is done by conducting qualitative research of articles, journals, books and individual point of view.

Keywords: market entry mode, resource based theory

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Abbreviations

EMC – Export Managment Company

EMG – Export Marketing Group

FEM – Foreign Entry Mode

FDI – Foreign Direct Investment

HQ - Headquarter

JV – Joint Venture

MNE – Multinational Enterprise

R&D – Research and Development

SME – Small and Medium Enterprises

WOS – Wholly Owned Subsidiary

Introduction

In this day and age of globalization when economies of various nations are interwoven more than at any other time and exchange of goods and services is encouraged by various arrangements, numerous organizations choose to expand their business into different markets for different reasons. The present markets are to a great degree globalized and because of it, international markets and countries are winding up exceedingly reliant and associated. Express development of new technologies and decreasing level of trade barriers and tariffs lead to the today's point where conducting businesses in foreign markets is significantly less demanding than at any other time in the past. Saturated domestic market and sky-scraping number of competitors simply force companies to enter new markets in order to attract new customers and increase profits.

According to Sharma and Erramilli (2004) entry mode is defined as “a structural agreement that allows a firm to implement its product market strategy in a host country either by carrying out only the marketing operations (i.e. via exports modes) or both production and marketing operations there by itself or in partnership with others (contractual modes, joint ventures, wholly owned operations)”.

For a long time, in their literature, authors have associated entry modes to be nearly connected with different levels of asset dedication, control, return on investment and risk. Previous literature has demonstrated that the selection of market entry mode relies upon various sorts of factors such as factors specific for industry, firm and country.

The decision of choosing a mode of entry is a crucial part and the most important decision of the internationalization strategy (Anderson and Gatignon, 1986; Hill et al. 1990; Brouthers and Hennart, 2007). The choice of right market entry modes gives the company the necessary flexibility level to appropriately handle its assets, react to changes and unpredictable situations in the market and, as a result, to minimize the impact of such unpredictabilities on their company.

The vast number of theories have been developed by researches in order to determine different motives, factors and applied systems of market entry. Additionally, they have identified variables that impact the decision of market entry mode for foreign markets and in this manner, the void in the time spent choosing the right entry mode was filled. Be that as it may, it is an endless point in which researchers are still looking for and proposing the companies to opt for a most efficient entry mode for each market. Wind and Perlmutter (1977) argued that the choice of market entry mode has a great impact on international operations and can be regarded as "a frontier issue" in international marketing. Root (1994) argued that entry modes affect future choices and operation success in international markets and it demands an enormous amount of resources which is hard to shift from one entity to another. The thesis is searching for an answer for the question **„What is the most suitable entry mode according to Resource Based View (theory) for company which wants to enter new market and how will this choice influence future choices and performance of a company?".**

Before companies decide to go international, they must analyse their main targets and motives and examine all other alternatives with respect to product, internal and external factods, desired mode characteristics, transaction-specific factors and many other factors which can influence their decision as can be seen in Figure 1 (Hollensen, 2011, p.322)

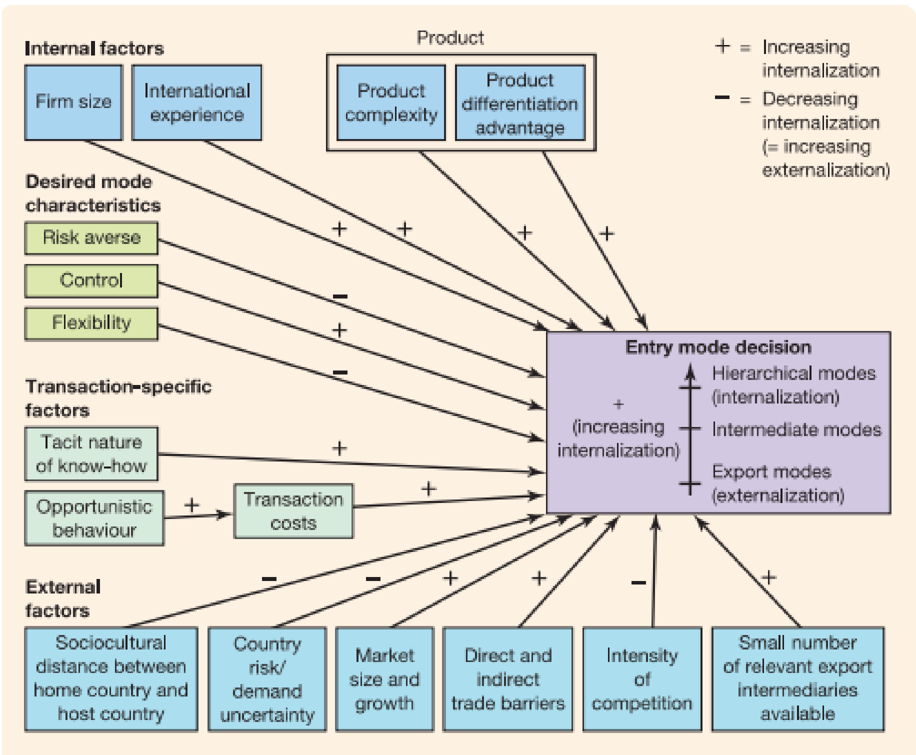

Figure 1. Factors affecting the foreign market entry mode decision (Hollensen, 2011, p. 322)

Market Entry Modes

A market entry mode is usually defined as *„a foreign entry mode (FEM) is an institutional arrangement facilitating the entry of a company´s products, technology, human skills, management, or other resources into a foreign market"* (Root, 1994, p.5). The choice of the most suitable market entry mode is of a large concern for companies, because this choice will influence their future objectives, performance and entries to other markets.

When choosing entry mode, companies are taking into account three different mode characteristics: risk, control and flexibility. The level of risk will substantially influence the choice of market entry mode. If the company wants to avoid high risk they will incline toward export modes since it typically involve low levels of commitment (eg. investment, management, etc.). In spite of the fact that intermediate modes are considered as modes where risk, costs of founding new local networks are shared and, more importantly, financial exposures are minimized, brokering and overseeing intermediate modes (eg. JV) frequently retains significant time and endeavour. Be that as it may, entry modes which involve insignificant levels of resource engagement and negligible risks, are probably not going to encourage the advancement of international activities and may lead to the loss of exceptional opportunities in other markets.

Entry mode choices additionally need to consider the level of control which is required over tasks in worldwide markets. Control is usually firmly connected to the resource engagement. Entry modes with insignificant resource engagement come up with minimal or no control over products or services in international markets. Intermediate modes additional restrain the level of control over products or services which could lead to significant dispute between the partners. Hierarchical entry modes yield the highest level of control, but in addition it requires a considerable engagement of resources.

Company should likewise weigh the flexibility related to the chosen entry mode. Hierarchical modes are usually the most exorbitant, however the level of flexibility is the lowest and most hard to change in the short run. Intermediate modes restrict the company's capacity to adjust or change it's strategy when conditions on the market are evolving quickly.

Types of market entry modes

After defining the most suitable market/country for their business, company has to chose the most suitable market entry strategy. In their studies Erramilli, Agarwal and Dev (2002) differentieted entry modes based on control (full, shared, inbetween). There are three different groups of market entry modes with several types of modes: export, intermediate and hierarhical (Hollensen, 2011, p. 327).

Export entry modes

Exporting modes are considered as the most common and used by the companies for inital entry into the new host markets (Douglas and Craig 1995, p. 155). Entering a foreign market by using export entry modes means that company's products are produced in their home country or another (third) country and afterward sent to the targeted market by using direct or indirect export.

Exporting is used as initial entry mode and later it can transform to the more complex hierarchical modes (eg. WOS). Sometimes where there are significant economies of scale present or an insubstantial amount of purchasers in the market around the world, production process might be moved in a particular or several production locations, and the products at that point traded to different markets. Exporting of products can be done in several different ways which are chosen by defining the amount of intermediaries involved.

By setting up exporting entry modes company needs to choose which operations will be the obligation of intermediaries (agents) and which will be taken care of by the company. There are several reasons for choosing exporting as a inital entry mode company size, lack of resources, limited commitment.

When exporting goods, firms‘ can choose among three different types of exporting depending on the level of involvment they want to have. In this situation, firm’s can transfer products to the targeted market indirectly, directly or by cooperation with other firms.

Indirect export

The first type of exporting modes available to the firms‘ is the indirect export. Indirect export is known by the fact that manufacturing companys‘ are not directly involved in exporting operations. It is used by a companies which have limited financial and managerial resources and capabilites which cannot be devoted the expansion into the new international markets. The sale is very similar to the domestic sale because firms‘ are not inolved in the global marketing strategies since the products are transferd to the host markets by intermediares (Hollensen, 2011, p. 337). According to Peng and York (2001) intermediares usually connect sellers from domestic country with buyers from host country who cannot meet in any other possible way due to different reasons. Manufacturers do not undertake any operations regarding exporting to host countries, since it is done by the intermediaries (Chee & Harris, 1998). According to Hollensen (2011, p. 338) indirect exporting consists of 5 entry modes:

- Export buying agent
- Broker
- Export management company (export house)
- Trading company
- Piggyback

Export buying agent

The export buying agent „is a representative of foreign buyers who resides in the exporter’s home country“ (Hollensen, 2011, p. 338). Export buying agent inititates the contact with the manufacturer where he accquires product from and conduct all operations related to the export to targeted market (eg. marketing, distribution). The export buying agent gets commission fee because he is operating on the behalf of foreign buyers. All terms of purchase are determined between foreign buyer and the export buying agent. The export buying agent usually sweep the home market for the particular products and sends an inquiry with the specification to the manufacturers.

From the perspective of manufacturers, the export buying agent is seen as domestic buyer and therefore transfer of products is done by the the export buying agent. This minimises financial risk to which they are exposed, but the control which manufacturer has over the products is significantly reduced. Douglas and Craig (1995) concluded that manufacturers cannot obtain any useful information about the host market such as consumer behaviour, competition on the market or obtain experiences which could be useful in future expansion.

Broker

Another type of export agent which manufacturers could use for exporting is **broker** who is usually specilist for particulary products. All contractual functions are conducted by broker for which he is paid a commission which is mostly about 5 per cent (Hollensen, 2011, p. 338). Distribution and marketing of products sold are not conducted by the broker and therefore this type of exporting is not attractive for the initial entry to the foreign markets.

Export management company

Export management companies (export houses) „are specialist companies set up to act as the export department for a range of non-competing companies“ (Hollensen, 2011, p. 339). All exporting operations are conducted by EMCs from interaction and negotiation with buyers to sales and distribution of manufacturers products. Conduction business for several companies help EMCs to minimize transport costs and disperse sales and management costs. Possessing fairly large knowledge of international markets and different regulations makes EMCs an attractive entry mode for firms with lack of financial resources and capabilities who are struggling to penetrate new markets. This also leads to the greater chance of product penetration into the international markets (Hollensen, 2011, p. 339).

Trading companies

Trading companies are companies operating with several types of goods which are usually bought in one country and then distributed, by their own distribution network, to other countries and there they are sold or exchanged for other goods. Exchange for other goods is called counter-trade (barter) where sales in one market are paid for by taking other products from that market in exchange (Hollensen, 2011, p. 340). The reason why trading companies are called „specialists“ is because they cover several activities such as identification of potential suppliers accross several countries, negotiation of sales terms, financing, dealing with customs and trade barriers, managing logistics and at the end distribution of goods. Because of these, trading companies are known as specialist that cover all operations and activities in exporting and importing goods.

Piggyback

The last type of indirect export is piggyback. Piggyback take place when a smaller and inexperienced firm („rider“) whishes to export goods to foreign markets by using already established distribution network of a larger company, in this case known as „carrier“. This helps carrier to fully exploit their facilities and decrease costs. Carrier has two options when it comes to fees, they either work for commission or buy products from manufacturer and becomes distributor of those goods (Hollensen, 2011, p. 340). Exporting goods like this will help manufacturers to gain knowledge and experience about new market and how distribution works, which will lead to the changing of entry mode from indirect to direct export.

Direct export

Direct exporting occurs when a manufacturer or exporter sells directly to an importer or buyer located in a foreign market area (Hollensen, 2011, p. 341). Identification and realisation of a contact with suitable firm in foreign market which will distribute manufactures products takes tremendeous amount of time and work such as realisation of contacts, research of potential distributors and/or agents, negotiation and finding optimal networks for distribution. In order to export products to other host markets, firms organise their own divison for exports and sell their products to distributors or agents which are positioned in host market.

By using direct export mode, firm’s maintain larger control over their products and since they manage all operations regarding exporting operations (marketing, transport, distribution, etc), the management of resources has to be more effective compared to the indirect export. This also increases the sales potential and results in greater exposure to local market which increases gained experiance leading to greater acquisition of knowledge. Firms have two choices when they decide to direct export: foreign based agents and distributors (Hollensen, 2011, p. 341).

Distributors

The first option for firms who want to export directly to foreign markets are distributors „which are the exclusive representatives of the company and are generally the sole importers of the company's products in their market“ (Hollensen, 2011, p. 341) As independent vendors, distributors, withouth third parties involved, purchase and have significant flexibility to pick their own particular clients and to arrange sales conditions. Usually, in every country exporters sell to one distributor. In most situations, distributors possess and manage wholesale and retail operations, distribution centers, repair and administration venues. When distributors have defined with exporters on prices, administration if products, the endeavors center around working on their own particular operations and buyers/dealers.

The distributor classification is wide and incorporates more varieties, however distributors, for the most part, look for exclusive rights for a particular areas and usually act on behalf of manufacturer in all parts of sales conducated (Chee & Harris, 1998, p. 298). The exclusive rights are a byproduct of the considerable financial resource allocation that might be needed with respect to the distributor's dealing with and selling of manufacturer's products. Distributors do not work for commission fee but for the differences in the purchase and sale price.

Agents

Agents are independent company that sells on to customers on behalf of the manufacturer (exporter) (Hollensen, 2011, p. 342). There are three types of agents: exclusive – exclusive rights to specific sales area, semi-exclusive – handling one exporter's products with other non-competing products from another exporters, and non-exclusive – handling a variety of products which might be competing (Hollensen, 2011, p. 342). Firms which are planning to increase their operations in international markets, more frequently have a tendency to pick agents since they can cover greater area, with help of the subagents, which is troublesome for a smaller firms to do. Normally, agents do not claim the products that they are offering, sometimes they do not even have them on stock or claim responsibility for financial risks except if they are a kind of agent which acknowledges financial risk, consenting to pay the exporter in case where client is responsible for it.

Agents and subagents work for a commission fee which is paid by the exporter of products on already agreed premise. Commission fee is mostly betwenn two percent to fifteen percent, depending on the size of transaction, market significance and size, rivalry between other agents and exporters (Hollensen, 2011, p. 342). Since agents are based in host country, they alread have necessary knowledge about local markets, business contacts and are familiar with local laws and practices which makes it more simple for companies to expand to foreign market more easily. There are four distinct sorts of agents:

- **Commission agent** – fundamentally valuable for trading products more related to industrial usage and where barriers for entering those markets are hich
- **Service after-sales agent** – useful for specialized products with larger need for repairs and servie after the conveyance of the products
- **Stocking agent** – warehouses products
- **Del credere agent** – acknowledges the liability (risk)

Cooperative export

Cooperative export involves collaborative agreements with other firms (export marketing groups) concerning the performance of exporting functions (Hollensen, 2011, p. 349). These groups are usually a part of SMEs which are entering international markets for the first time. Large number of SMEs do not accomplish adequate economies of scale in marketing, and even manufacturing, due to the home market size or the inefficient resource allocation (eg. management). These attributes are usually for the mature and exceptionally divided industries such as apparel industry. Oftentimes, similar qualities are identified in the newly created high technology companies.

A critical reason for SMEs to cooperate with other companies is the chance of efficiently promoting a interrelated products to a bigger group of buyers in foreign market. Cooperatively they create a more extensive item that could be more appealing to buyer in international market, particualry if the final product is aimed at the end consumers with a specific way of life.

The collaboration among manufacturers can be tight or loose (Hollensen, 2011, p. 349). What is specific for a loose collaboration is that different firms in a group offer their own particular brands through a similar agents, while a tight collaboration regularly ends in the foundation of a new export operations. These types of collaboration usually lead to a increase of economies of scale and provides an opportunity to all parties involved to have and unified front when it comes to international markets.

Firms in an collaboration can explore international markets all the more successfully together, and acquire better perception in them. By setting up one association to substitute a few other, they could achieve more steady prices, while expenses can be decreased. By uniting distribution and minimizing effort, firms minimize costs of transport and accomplish product standardization which results in a stronger and more known brand.

Taking into account every one of the advantages which SMEs can have by being a member of export marketing group, it is astounding that such a small number of export marketing groups are really operational. One reason for this might be the clashing perspectives in the matter of what the export marketing groups ought to do. In numerous SMEs there are solid sentiments of freedom enlivened by their managers , which might be opposite, for instance, to the shared objectives of EMG. One of the crucial aims of EMG is to adjust the interests of the several partners in the group.

In the Table 1. are summarized advantages and disadvantage of different export modes, while in Appendix 3 you can find more detailed advantages and disadvantages of export modes.

Export mode	Advantages	Disadvantages
Indirect exporting (buying agent, broker or export management company	Low levels of risk Limited commitment of resources needed No prior experience for export needed	No control over marketing Possible additional costs Limited access to local market Lack of knowledge and experience about local market
Direct export (distributor or agent)	Better acces to local market Gaining local market knowledge and experience Greater degree of control More control over marketing mix Service and support provided to local customers	Lack of distribution control Investments needed Cultural differences produce confilcts Trade tariffs and barriers
Export marketing groups	Shared costs and risks Customers have acces to whole product line	Risk of alternative products offered by EMC Hard to find ways to gain local market knowledge

Table 1. Advantages and disadvantages of the different export modes (Hollensen, 2011, p. 350)

Intermediate entry modes

Even though exporting is one of the most preffered modes for the inital entry into a new international markets, some manufacturers may see it either unfeasible or unrealistic to supply international markets from home country or country of production. In some cases, the company may discover it either inconceivable or unappealing to supply every single market from home or a third country. Intermediate market entry modes are different from previously described exporting market entry modes since they are principally methods by which companies shift skills and knowledge to other partners, with a specific end goal to do business in other countries. In comparison to hierarchical entry modes, intermediate entry modes rely on the fact that there is no 100% of ownership included. As a matter of fact, control and ownership of a newly formed establishment can be shared between two partners (eg. joint venture).

According to Chee & Harris (1998) there are few important reasons which impact the firm’s choice to start up production in host markets rather than transport products from home country. The reasons that may urge the firms to seek after the mode of entry which includes more asset engagement are host country's tariff barriers, closeness to local customers improving interaction which results in the development of product's with local customer needs and wants, lower labor costs, preference and protection of local producers and suppliers. An extremely solid standpoint for local production and working in collaboration with the companies from that market is that the firm will react positively to local customer wants and needs, easier distribution, adaptation and standardization of products, and even greater customer feedback.

At the point when a firm chooses to get more engaged in international market without just exporting and direct investment is too big financial resource allocation, they could enter that market by using one of the modes of contractual agreements. Some of the reasons why firms could use contractual agreements are host country instability, market is not sufficiently developed for large investments, the firm is present in neighbouring market and in this way does not have any desire to act needlessly, or basically when the firm sees an opportunity to enter the international market but is not able to use any other entry mode because of host country policies. There are several types of intermediate entry modes, such as contract manufacturing, licensing, franchising and joint venture.

Contract manufacturing

Contract manufacturing is a intermediate entry mode where company starts production in host market in collaboration with local company responsible for production, while control over marketing, sales, R&D and repair of products is in hands of the company. This type of entry mode is suitable for companies with low financial resource commitment or insufficient host market knowledge which lays the path of future international expension at the certain period of time (Hollensen, 2011, p. 356). The products manufactured in collaboration with local company can also be used to supply other markets, besides home market or country of production. Installments paid by the contractor to the other party involved is usually per unit premise, where quality and essential description play the most important role.

Contract manufacturing is a conveninet entry mode for foreign markets where governments impose trade barriers or import quotas or firm may not have enough financial capital for higher equity entry mode. Another reason why contract manufacturing is favorable among companies is the costs of production or labor in foreign country are lower than in home country. By doing this, company utilizes maximum benefit from lower production and labor costs. Contract manufacturing also offers substantial flexibility (Hollensen, 2011, p. 356). Contingent upon the span of the contract, if the firm's quality and delivery requirements are not met, it could move to another producer in order to minimize loss of time and money, which could be very difficult to find the appropriate one. Then again, it is important to control quality in order to satisfy the firm's norms and requirements.

The firm may experience issues with deliveries, product guarantees or satisfying extra requests. The producer may likewise not be as cost effective as the contracting firm, or may achieve production limit, or even to take advantage of the contract. By acquiring neccessary knowledge in production might push local producer to grow into a competitor with good access to potential customers.

Licensing

Licensing is a contractual transaction, where a firm (the licensor) offers some proprietary assets to a foreign company (the licensee) in exchange for royalty fees (Kotabe & Helsen, 2010, p. 301). A licensing agreement is an arrangement wherein the licensor gives something of value to the licensee in exchange for certain performance and payments from the licensee (Hollensen, 2011, p. 358). Licensing is another method by which the firm can set up production in international markets without financial investment. Compared to contract manufacturing, licensing is generally used for a longer period of time and includes substantially more prominent obligations because all operations (marketing, related to the product or service are shifted to the licensee. According to Hollensen (2011), licensee has a right to use one or more of the following:

- a patent covering a product or process;
- manufacturing know-how not subject to a patent;
- technical advice and assistance, occasionally including the supply of components,
- materials or plant essential to the manufacturing process;
- marketing advice and assistance;
- the use of a trademark/trade name.

As a results, licensee agreed to assume control of production, advertising and sales provided by the rights. According to Sanyal (2001), patent licensing gives a legal insurance of either recently developed item or process, while trademark/trade name licensing, the photo, image or name, which separates a firm's products from other firms' is licensed. In spite of the fact that the firm by trademark/trade name licensing has an opportunity to increase it's short-term profit by over-licensing a product, the licensor ought to be cautious with this procedure as it might prompt undermining of their product. Other properties which could be licensed are copyright, which secures the copyrights of movies, books, music and programms/softwares.

In his book Hollensen (2011) stated that royalties or fees which licensee has to pay to licensor may come in three different types:

- **Lump sum** – sum being paid at the beginning of the agreement for the inital transfer of properties being licensed
- **Minimum royalty** – a guarantee that licensor will get a part of annual income of licensee
- **Running royalty** – percentage of a selling price or a fixed sum of money for outputed units

There are a few reasons why a firm would opt for licensing when entering a foreign market. For heavy and/or massive products, cost of transporting of such products will be too expensive to use exporting as entry mode. In some cases, a local producer with specific knowledge about products is needed, particularly in cases where installation and support for such products is needed. In such conditions, it is impossible that an exporting agent could give the vital back-up.

Sometimes an additional agreement might be created in which the licensor provides high-technology elements and the licensee supply the less important parts such as mountings, offices, etcs. Such additional agreement is more similar to a joint product agreement (Hollensen, 2011, p. 359).

Licensing supports the little firms that do not have the assets to enter into international markets by avoiding barriers to import and quotas in a legal way. Furthermore, the company acquire access to local customer needs and wants, market knowledge, a network of distributors and clients. Due to the stage of development, product lifecycle is different in each country and companies have a possibility to extend the product lifecycle by licensing it in countries where that technology is not obsolete. In conclusion, despite the fact that in licensor contribute the licensing agreement with technological knowledge, at the same time the licensor stays as a predominant party in regards to technology.

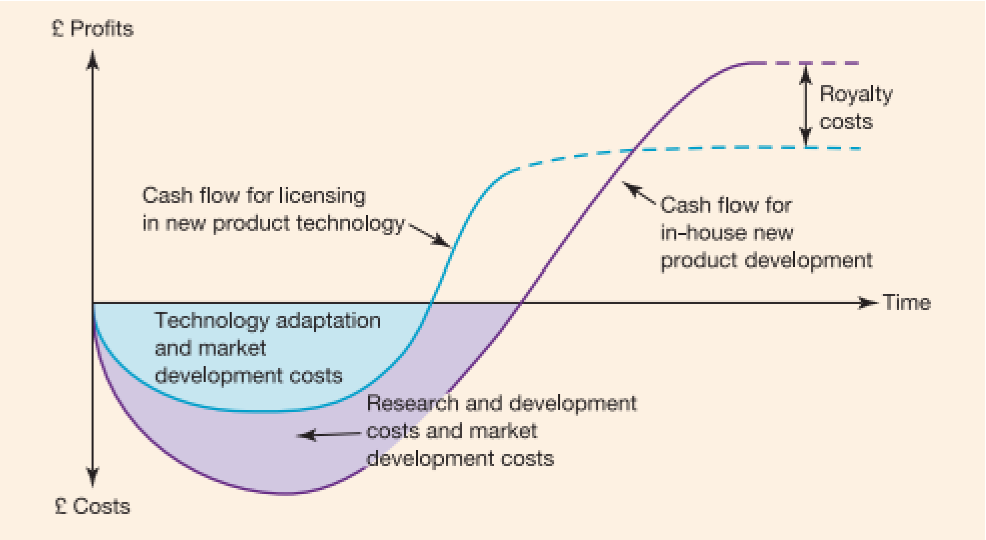

Figure 2. Lifecycle benefits of licensing (Hollensen, 2011, p. 360)

There are likewise regional motives which will push the company to opt for licensing as a market entry mode. Barely any company has enough workforce to be present in the vast number of geographic markets in various countries or adequate production capacities to provide support in those large markets. In cases where the potential market is extensive, licensing is seen to be an alluring choice for future development.

As each type of entry mode, licensing too represents particular risks for the two parties. Because the licensee gains all the important know-how and technological innovation from the licensor, sometimes in the future, when the agreement ends, the licensee may become a competitor to the licensor. Hence, companies need to precisely examine the option of sharing proprietary knowledge with the licensee. Because of the possibility of losing control over the components which are a part of the company's source of competitive advantage, a large number of companies share their former technology or knowledge instead of vital technological parts. By doing so, the licensee helps licensor to improve and develop state of the art technology.

Another threat which the licensor may encounter comes from their reliance on the licensee. In the event that the product indicates low quality, or the licensee neglects to create or deliver the products because of deficient acknowledgment from clients or the licensee's powerlessness to grasp the innovation and/or technology, or if the licensee breaches the agreement by not paying the royalties or fees, or offers items in specific markets in which they are not permitted to, the agreements will probably be terminated.

Franchising

Franchising is anothery type of intermediate entry mode. It is very similar to licensing. In franchising, „ the franchisor gives a right to the franchisee against payment, e.g. a right to use a total business concept/system, including use of trade marks (brands), against some agreed royalty“ (Hollensen, 2011, p. 361).

Hollensen (2011) identified several factors which are causing a swift increase of usage of franchising as a market entry mode. Those are:

- the general worldwide decline of traditional manufacturing industry and its replacement by service-sector activities has encouraged franchising which are well suited to service and people-intensive economic activities, particularly where these require a large number of geographically dispersed outlets serving local markets

- the growth in popularity of self-employment
- government policies in many countries have improved the whole climate for small businesses as a means of stimulating employment

Franchising is something of an umbrella term which could mean anything from the privilege to utilize a name to the whole business idea (Hollensen, 2011, p. 361). Accordingly, there are two kinds of franchising:

1. **Product name and trade name franchising**

In this type of franchising supplier establishes contact with distributors in order to buy or sell one single product or a whole product line. In this case, distributors have the right to use trademark, trade name and product or product line.

2. **Business format franchising**

Business format franchising includes a relation between the franchisor (owner) and the franchisee (foreign market investor). The franchisor has created and owns a business format, which is given to the franchisee for usage under a defined contract. We can distinguish between two franchise frameworks, direct and indirect (see Figure 3).

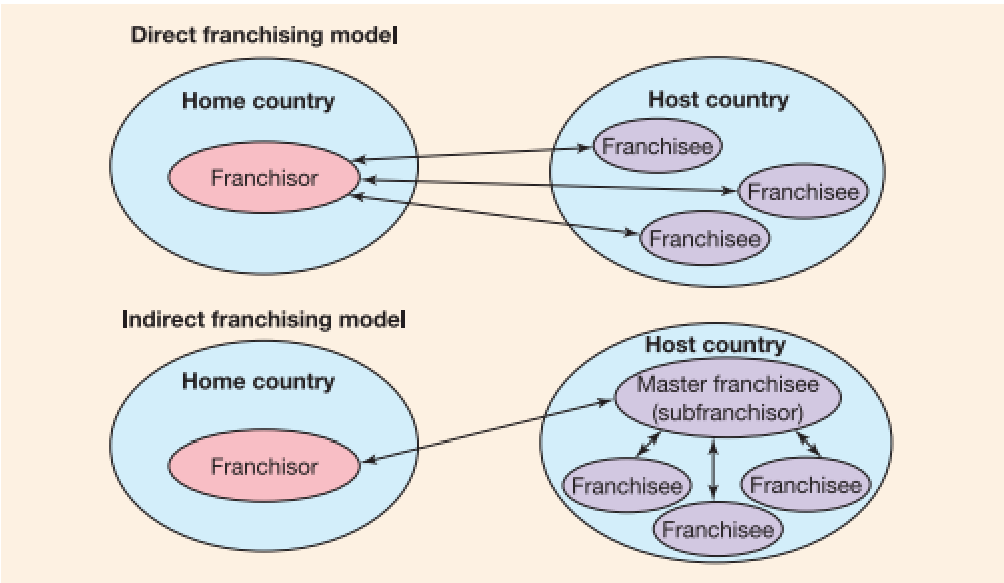

Figure 3. Direct and indirect franchising models (Hollensen, 2011, p. 362)

The business format exchanged by the franchisor, consists of components which are fundamental for the foreign market investor to set up a business and operate with profit in foreign market in a recommended way, managed and governed by the franchisor. The business package consists of:

- trademarks/trade names
- copyright
- designs
- patents
- trade secrets
- business know-how
- geographic exclusivity
- design of the store
- market research for the area
- location selection

All franchisees in a foreign market can likewise get sub-supplies from the franchisor and gain from an already predefined marketing policy. As a byproduct of business format franchising, the franchisor gets from the franchisee an initial fee in advance or constant franchise fee, usually calculated on a level of yearly turnover as an margin on merchandise provided specifically by the franchisor.

Companies which usually use business format franchising as entry mode come from business and personal services (eg. KPMG), convenience stores (Carrefour, DIA), car rentals (Hertz, Europcar), fast food chains (McDonalds, Burger King, Pizza Hut, Domino’s Pizza, Wendy‘s), beverages (Coca-Cola, Pepsi), hospitality (Swissotel, Marriot, InterContinental).

When compared, the distinction between licensing and franchising is that the franchisee has the privilege to utilize the entire concept of business, including the utilization of additional property rights for a fee. Keeping in mind the end goal to have the capacity to benefit from such rights, the franchisee needs to embrace specific approaches in order to maintain the business in an indistinguishable way from the franchiser and also, along these lines to keep up the quality standards of a brand. This may incorporate, for example, the franchisee's commitment to obtain the essential supplies from the franchiser.

According to Sanyal (2001), an important contrast between the two entry modes are contracts. In franchising, contracts, for the most part, have a longer time span and have a tendency to be utilized by service companies, while licensing is all the more as often as possible utilized by production companies. For more differences between licensing and franchising see Appendix 1.

Joint ventures and strategic alliances

Past involvement with different entry modes such as exporting or licensing, can be seen as a benefit for a company which decides to of devote more resources and commitment in a foreign market. Therefore, companies can opt for joint ventures as an entry mode after they have gained some experience in international markets. Chee and Harris (1998) identifed joint venture as „a partnership between two or more parties that generally results the development of a new company in which the parties have shares, though none of the part has actual control over the decision-making process“. In other words, it is a business alliance in which two entities (companies) choose to conduct business together (jointly) for a defined period of time.

In order for a joint venture to be successful, companies have to define which activities will be done jointly, how much resources will each entity devote, etc. Anderson and Gatignon (1986) mentioned that the company which has a smaller share in JV, it seeks for a collateral to secure their own interests. Hollensen (2011) gave several reasons for formation of joint venture:

- Skills and technology provided by two entities could be combined to create new opportunities
- Finding right partner in foreign market will reduce time and costs needed to enter that market
- Foreign ownership is restricted in some countries (eg. China)
- Reaching competitive advantage by reducing the costs of production and R&D

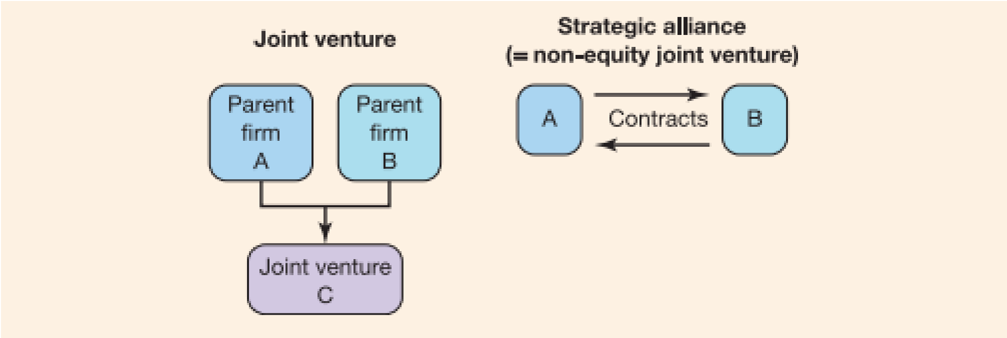

Figure 4. Joint ventures and strategic alliances (Hollensen, 2011, p. 366)

The main difference between joint ventures and strategic alliances is that the latter are usually a non-equity collaboration which means that entities do not commit any resources or invest in the collaboration. On the other hand, there are two types of joint venture – contractual non-equity JV and equity JV. Contractual non-equity JV is a type of collaboration where two or more companies establish a partnership in which all parties share investment and managerial costs, risks and future output (profit). Equity JV is a type of collaboration in which foreign and local company establish a completely new company with shared ownership and control.

Based on equity share, Kotabe and Helsen (2010) identified three types of joint ventures:

- **Majority** - more than 50% of ownership
- **50-50** – ownership is equaly split
- **Minority** – 50% or less of ownership

When it comes to formation of new company, entities have to decide with which activities they are going to contribute newly formed company. For a more detailed description of stages in joint venture formation, see Appendix 2**.** Based on value chain, Hollensen (2011) mentioned three types of collaboration:

1. **Upstream-based collaboration** – entities collaborate on R&D and/or production
2. **Downstram-based collaboration** – entities collaborate on marketing, distribution, sales and/or service
3. **Upstream/downstram-based collaboration** – entities have complementary activities

Porter and Fuller (1986, p. 336-337), defined first two types of collaboration as **Y coalition** and last type as **X coalition**. In Y coalition, partners include their own products or services and assume the liability of value chain activities. This type of coalition helps companies to reach economies of scale or gain the advantage from a more extensive market scope, for both companies, because of the utilization of new distribution channels. It tends to be expected that the two companies, establishing this type of coalition, are indistinguishable as far as their value chain. Forming X coalition, partners divide value chain activities between themselves. For example, a manufacturing company wants to form a JV, in this case, X coalition, with a company from a host market in order to exploit their knowledge about the market. By doing so, a manufacturer will benefit from using their (local partner) distribution network and having somebody to manage other value chain activities (marketing, sales, and services). On the other hand, the main reason for a local partner to form such coalition are the benefits gained by having access to foreign company's production and R&D.

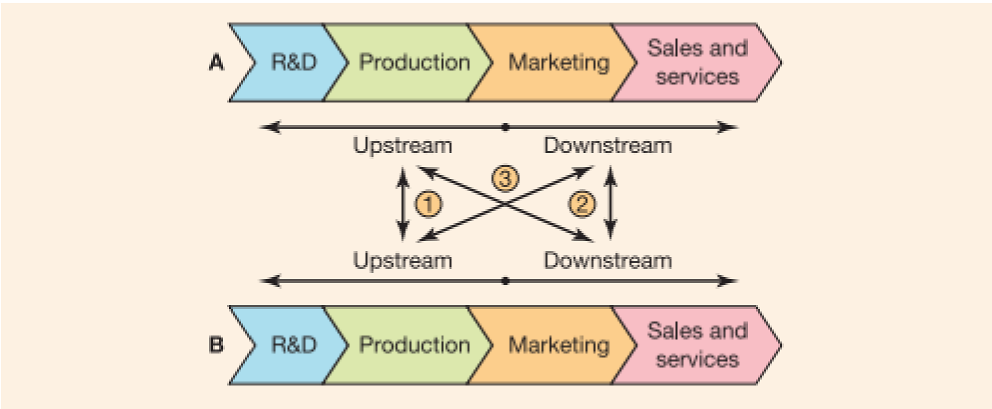

Figure 5. Collaboration possibilities for partners A and B in the value chain (Hollensen, 2011, p. 367)

It is evident that the companies forming an X coalition provide opposite value chain activities, in other words, local partner's value chain activities (marketing, sales, distribution) are stronger in comparison to foreign partner's value chain activities and vice versa. Contrary, in Y coalition, both partner tend to have the same level of development of their value chain activities.

Establishing a joint venture has several advantages for both entities. To begin with, Agarwal and Ramswami (1992) found that companies with fewer resources committed to the joint venture will lose less. Contractor (1990) stated that by entering a new market bears a significant risk, but with the formation of a joint venture that risk is shared between two or more companies. Therefore, this type of entry mode is particularly favoured when entering less developed, politically and economically insecure countries. As already mentioned, entering a new market by using joint venture as entry mode, entry barriers are easily avoided, costs and time are radically decreased. It also helps companies to easily gain knowledge about the market, access to new technologies, distribution networks and other, tangible and intangible, resources.

The main difference between intermediate and export entry modes is that the former is fundamentally used to exchange skills and knowledge between partners, keeping in mind the end goal is to conduct business in foreign markets. Compared to hierarchical entry modes, the main difference is that ownership and control are shared between partners. Below (Table 2.) are summarized main advantages and disadvantages of intermediate entry modes. In Appendix 4 those are decsribed more detailed.

Intermediate entry mode	**Advantages**	**Disadvantages**
Contract manufacturing	Low risk market entry Low investments Easier entry to markets with trade barriers or tariffs Control over marketing, R&D, distribution, sales and servicing Flexibility Low exit barriers Cost savings Access to manufacturers skills and technology	Quality of products may be low Problems with delivery Cost efficiency Agreement exploited by manufactuer Production know-how hard to transfer Manufacturer could become competitor
Licensing (seen from the licensor's viewpoint)	Avoid entry barriers and tariffs Quick and easy access to foreign markets Little or no financial investment Possible large return on investment Licensees market knowledge and access to customers and distribution channels	Low level of control Possibility of getting a competitor Small license fees Bad quality of products may harm licensor's brand Costly negotiations
Franchising (seen from franchisor's viewpoint)	Low risk Low financial risk Great access to market Economies of scale Easy expansion capital	Low level of control over operations Costs of creating and marketing a unique package of products and services recognized Hard to protect brand name Problems with transfering payments and fees Creation of potential competitor Free riding
Joint venture (seen from	New expertise and insights Access to resources	Vague objectives Restricted flexibility

parent's viewpoint)	Shared risks and costs Concentration on core competencies Less financial resources and management needed Achieving economies of scale Overcoming government barriers and tariffs	Clash of cultures Limited outside opportunities Loss of confidentiality Costly exit out of JV Unrealistic objectives Opportunistic behaviour
Management contracting	Alternative for hierarchical and exporting entry modes Abillity to explit new opportunities Efficient way to gain knowledge and experience in foreign market of	Creation of potential competitor Hard to maintain good communication Conflicts between contractor and governments Low degree of control

Table 2. Advantages and disadvantages of the different intermediate modes (Hollensen, 2011, p. 376)

Hierarchical entry modes

The last group of entry modes is hierarchical entry modes, which are also known as foreign direct investment (FDI). This entry mode is recognizeable by the fact that the company has 100 per cent of control over all operations and activities of the newly formed subsidiary in foreign market. Hollensen (2011, p. 388) defined subsidiary as „ *A local company owned and operated by a foreign company under the laws and taxation of the host country*."

The hierarchical entry modes incorporate the ownership/control of production plants or the subsidiaries in the host country in form of greenfield, acquisition,merger. The level of control which headquarters can apply on the establishment in the foreign market will rely upon what number of and which value chain functions may be assigned to the foreign market. This relies on the distribution of obligations and skills between headquarters and the newly formed establishment. These 3 modes have an extensive capacity for affecting the economy of a host country (Root, 1994, p. 144).

In the event that a manufacturer needs more prominent impact and control on marketing operations than by using export modes, it is normal to consider establishing their own venture in the foreign markets. This shift involves an investment, except in the case of the firm having its own sales force, which is considered an operating cost (Hollensen, 2011, p. 386).

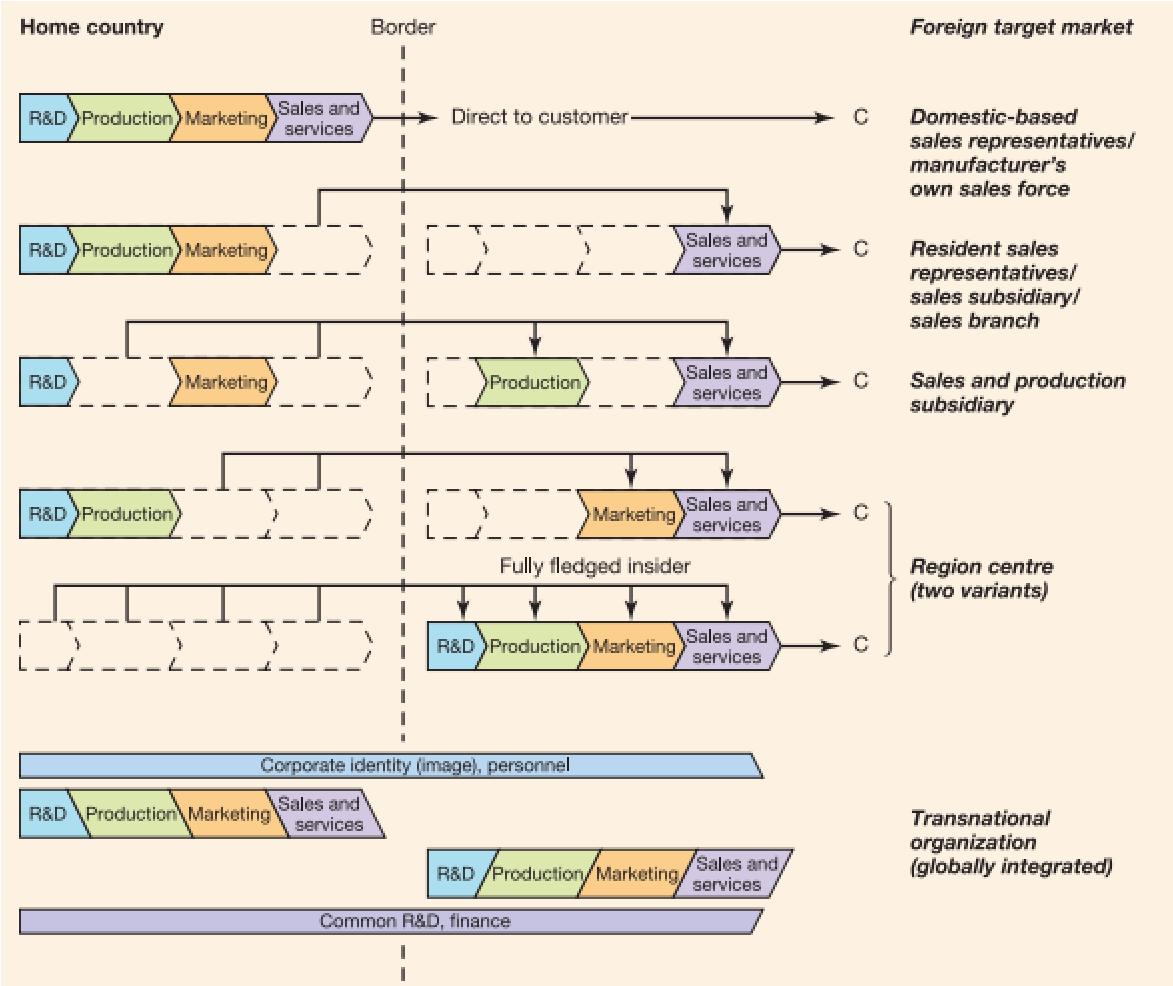

Figure 6. Hierarchical modes in a value chain perspective (Hollensen, 2011, p. 386)

Hierarchical entry modes are usually used when the exchange of tacit knowledge is engaged with a tasks since this will be encouraged when the parties are connected through ownership. By using these entry modes, companies can gain advantages from ownership, which are firm-specific and normally cannot be utilized outside the organization.

Entering markets by hierarchical entry modes offers access to the joined resources and, as a result, the improvement of information trade and administration of resources. According to Lei (1997) conducting operations jointly with companies which are contributing cooperation with compatible knowledge is particularly favorable in light of the fact that they offer new data, new ideas and new methodologies. Be that as it may, essential for hierarchical entry modes is paying attention to sensitive data and important knowledge. Sanyal (2001) concluded that not all that matters ought to be shared; rather particularly the core competence of the company should be safe.

In foreign direct investment (FDI) companies partake in the control of the new operations, as well as the management of the operation. FDI is seen as the entry mode with the highest investments needed in a foreign market which includes financial resources, time, management, transfer of technology and knowledge, marketing skills and many others. As already stated, there are 3 types of hierarchical entry modes: greenfield, acquisition and merger.

Acquisition

One of the ways to form a new establishement is through acquisition. Acquisition empowers quick entry to foreign markets and frequently gives access to already existing distribution channels, a client base and, at times, reputation and brands. Sometimes, as well, acquiring company decides to leave the existing management, giving an extension into the entering market and enabling a company to gain experience in managing the entered market. This might be especially worthwhile for a company with restricted international managing experience or unfamiliarity with host market.

Saturated markets are mostly too competitive or they have enormous number of entry barriers, and along these lines, there is no place for another company. In these conditions, acquisitions might be the single achievable entry mode for setting up a new operation in those types of markets. Acquisitions likewise enable companies to obtain experience from a foreign market.

According to Root (1997), acquisition can take several forms:

- **Horizontal** – the product lines and markets are similiar for acquired and acquiring company
- **Vertical** – acquired company becomes supplier or buyer of the acquiring company
- **Concentirc** – acquired company is in the same market but different technology or same technology but different market
- **Conglomerate** – acquired company is in different industry compared to acquiring company

By acquiring another company, the acquiring company has an opportunity to gain advantage from local management practices, skilled workers, reputation and brands of acquired company (Chee and Harris, 1998, p. 324). Another advantage of acquiring a company in the foreign market is a possibility to enter the foreign market in a quick way by avoiding entry barriers and use already established distribution channels with existing customers.

Besides these advantages, acquisitions can be very risky and extremely costly entry modes. Despite it requires an abnormal amount of financial assets, there has to be a balance between the two company's culture and management practices. This kind of integration is a major issue when it comes to acquisition and attention paid to its implementation is crucial.

Greenfield

The challenges experienced with acquisitions could steer companies to set up new operations from the beginning, particularly where production is a primary achievement element and where no proper options for acquisitions are accessible or they demand too much of financial resources.

Hitt (2009) stated that greenfield alludes to the establishment of completely new operations which is frequently complex and valuable, however, it can bolster full authority over the tasks of the company and has the largest potential to yield the better than expected return.

The main reason for greenfield investment is the ability to coordinate activities crosswise over several countries and lay the path for the future development, despite the fact that it takes more time to establish new production plant than to acquire existing one. Usually, foreign governments provide some kind of incentives for companies which set up a production plant in their country. By using greenfield as an entry mode, companies can get a hold of these incentives, which are provided by foreign governments which is not conceivable if another entry mode is used (Hollensen, 2011, p. 394).

Besides, if the company establishes new production plant, it can integrate the most recent innovation, technology and materials as well as stay away from the issues of attempting to change the customary practices of a built-up concern. A new facility means a fresh start and an opportunity for the international company to shape the local firm into its own image and requirements (Hollensen, 2011, p. 394).

Greenfield as an entry mode is worthwhile in a sense that one might say that it frequently gives the company more adaptability than other entry modes (eg. acquisitions) in domains like production plant area, distribution, material supply, management practices, HR. (Kotabe and Helsen, 2010, p. 315). Nonetheless, it requires a tremendous sacrifice of resources, financial and time.

Main benefits of a wholly owned subsidiary incorporate the foundation of a subsidiary as indicated by the interest and creative ability of the company's headquarter (HQ). Different explanations behind choosing to set up a subsidiary in a foreign market incorporate the doubts against other parties, more precise their opportunistic behavior. This also suggests worries about future clashes and changes in the division of assets and the control of the subsidiary.

At the point when the company has a tacit knowledge which helps them to gain a competitive advantage or other highly valuable parts of operations, the specified focuses above are of high importance for a company and it will avoid entering markets by using any other entry modes in order to minimize the risk of opportunistic behavior and conflicts with partners.

Moreover, the company risks being seen as an enemy for the domestic economy. WOS may be perceived as taking money out of the country and contributing nothing of value to the host country in which they are based, especially in developing countries (Hollensen, 2011, p. 389). All this infers that wholly owned subsidiary is a demanding and expensive step if the company's headquarters (HQ) decides to leave a foreign market.

In any case, this entry mode is seen as the entry mode with the highest levels of risk, halfway on the grounds that it requires a lot of resources – for the most part financial and furthermore on the grounds that it might most likely require a considerable long period of time to set up a subsidiary, procuring of workers and gain clients. For the most part, modes with higher equity share gives the company a more grounded effect on the vital decision. As alredy mentioned, the highest equity share is 100 percent which can be achieved only through greenfield or establishing a wholly owned subsidiary. Table 3. contains summarized advantages and disadvantages of hierarhical entry modes, while Appendix 5 contains more types of hierarchial entry modes and more detailed advantages and disadvantages.

Hierarchical entry mode	Advantages	Disadvantages
Acquisition	Rapid entry to new markets. Quick access to distribution channels, qualified labour force, existing management experience, local knowledge, contacts with local market and government, established brand names/reputation	High investment needed High risk Integration threats Communication and coordination problems between acquirer and acquiree
Greenfield	Establishing new operations from scratch Integration of state of the art technology	High investment cost Slow entry of new markets
Wholly owned subsidiary (sales and production)	100% of control Easier access to market knowledge Lower transport costs Access to labor and materials	High initial investment Low degree of flexibility High-risk Taxation problems

Table 3. Advantages and disadvantages of the different hierarchical modes (Hollensen, 2011, p. 396)

Resource based theory

Lee and Carter (2009) stated that the resource-based theory's focal point is company's resources and assets. This theory manages with the complexity behind the company's organization in terms of striving for the maximum effort in order to construct, maintain and make the most of the resources and capacities that a company has that represent the key determinants of the company's business. Lee and Carter (1999) explained that every organization has to find its own preferences as a competitive advantage in order to function successfully. The motive for this statement is that every organization is one of a kind and that it should constantly learn through its working processes, skills, knowledge and technologies and make them distinctive in its business environment.

To be specific, it is crucial to gain power over the resources and potentials that are vital in accomplishing company's goals in terms of being more efficient, effective and productive. In addition to this, these resources and potentials represent the company's most important tools in a long-term performance. The model explains a few premises. First thing, it is expected that organizations that belong to a specific market segment are conceivably similar in regards to the key assets they are managing. The next presumption is the defective portability of assets in the organizations. The concept of "competitive advantage" is explained as the company's most important weapon in taking over the market it has set its goal on. However, this concept cannot be used by the opponent company. Barney and Clark (2009) explained that when the opponent company is not able to implement the same methods, the competitive advantage is set to be successful.

The underlying foundations of the resource-based theory (RBV) are in the book written by Edith Penrose "The Theory of the Growth of the Firm", first time published in 1959. She characterized the firm as a group of resources. In her book, she distinguished between tangible (materials, equipment, etc) and intangible resources (employees, staff, etc). Without services, the exploitation of these resources, tangible and intangible, would not be possible. She described services as a process in which way assets are utilized. Along these lines, resources can be seen as a collection of services. This collection of services could be extended by expanding the expertise and capabilities of employees or in more precise way to improve knowledge.

Rubin (1973) identified resource as a fixed input that enables a firm to perform a particular task. Under these types of resources, he also added different types of resources, from physical assets to employees of the company. Every single operation inside a firm demand specific resource which cannot be isolated from the firm itself. Rubin defined the firm as a group of operations and/or resources which are, generally more precious for the firm itself than success on the international markets, since they are connected to the employees who have acquired valuable experience with those resources.

Wernerfelt (1984) connected a company's resources with its benefits. He described a resource as something which can characterize the advantages or disadvantages of a company. He contended that companies ought to be observed based on their resources instead of from their assortment. The collection of these resources contains of financial capital, employees' skills, equipment, materials, processes, customer base. All these resources help companies to increase their profits and strengthen their position in the market which could be useful to create entry barriers for new companies.

Such entry barriers are known as "resource position barriers" which incorporate the instruments which make leverage over other companies and prompt an invaluable position with the choice of achieving exceptional yields. This suggests that companies, which have special resources in the international market, will create significant yields in the market in which those special resources dominate. In any case, such resources can likewise be obtained by acquiring a company which already have those special resources in their possession.

Barney (1991) connected a company's resources with a competitive advantage. He described competitive advantage as an advantage that cannot be contended by other companies, however, it might be neutralized if the market is revolutionized by the new technology or invention.
According to Barney, company's resources must have four following characteristics if they expect them to create sustained competitive advantage and those are:

1. **Value** - an ability to neutralize possible threat or benefit from new opportunities with the help of the resources
2. **Rare** - such resources are not easily obtained and only a few companies might have access to it
3. **Imitability -** hard for other companies to obtain or duplicate resources (eg. too costly)

4. **Organization** - company has to be competent in order to achieve full efficiency and effectiveness of that resource

Grant (1991) created a framework which envisions the way companies could plan a strategy which helps them to achieve sustained competitive advantage. This framework consists of five levels:

1. Resources which are in company's possession must be named and sorted. After that, resources have to be compared with competitors' resources in terms of strength and weakness. Besides, possible opportunity for using such resources efficiently and effectively are identified.

2. Capabilities, again, are identified and compared with competitors ‘capabilities in the same terms, its strength and weakness.

3. The rent-generating potential of the company's abilities and resource are assessed, and additionally their capability to create sustained competitive advantage. Under these, he incorporated resources and abilities which are, hard to copy and transfer, difficult to determine and are just in company's possession and under their control only.

4. Strategy design helps the company to benefit from those already determined resources and abilities in the most efficient and effective way

5. Comparison of resources which are already in the company's possession with the resources which will be required for a designed strategy is known as a resource gap. Specter of company's resources and abilities must be produced and improved constantly keeping in mind the end goal is to obtain or maintain the sustained competitive advantage and to satisfy the clients' needs and wants. With a specific end goal to create a foundation for the creation of sustained competitive advantage, companies must redevelop their strategies and abilities for the future.

All in all, author contended that for a longer period of time rent-generating strategy cannot be created by considering only external factors of the company. In his perspective, a company's very own resources and abilities produce a more steady premise to create a profitable strategy. As a conclusion, companies have to concentrate more on resources in their possession rather than on the market they entered.

In general, companies have a tendency to become a part of a market which is closely related to their main activities. As a result, companies select those markets in which they have enough data about rivals and tend to have already organized system.

Abilities and resources which are valuable, rare, inimitable and non-substitutable have a perspective to produce sustained competitive advantage for a company. Newbert contended that not resources and abilities by themselves are able to produce sustained competitive advantage, but the combination of both, resources and abilities, needs to contain these attributes with a specific end goal to produce sustained competitive advantage.

Based on this, Wernerfelt (1984) showed that it is better for a company to internationalize in sequential order taking into consideration the resources of a company. In other words, a company could try to create valuable resources and abilities in one market (e.g. closest to the home country) and only then enter the new market after it has gained enough experience and knowledge with their resources in the previously entered market.

When a firm enters a foreign market, it typically relies on its existing resources to compete in that market because it is generally more effective and/or efficient to transfer them to the foreign market than develop new ones from scratch (Sharma & Erramili, 2004, p. 9).

Resource-based theory's lies on the principle that the main advantage for a company is to find the most efficient and effective way to move resources to the foreign market without losing any value of the resources. Resource value can be described as the level of participation in a company's competitive advantage. In other words, the more resource participates in the creation of the company's competitive advantage the more valuable it is. As a result, the most difficult task in the process of choosing entry mode is to choose entry mode with the ability to shift company's resources into a foreign market without decreasing the value of the resource.

The company will try to determine the probability of creating a competitive advantage in the chosen foreign market by analyzing the fit of its own resources (firm-specific) with the characteristics of the selected market. Montgomery and Hariharan examined about the impact of a company's resources in terms of assets, human resource and capabilities on its decision of the market segment it intends to take part in. After gaining more knowledge about the resources and assets that the company has as its advantage, the company itself will be more capable for easier decision making about taking part in a certain market. As a greater outcome, it will be capable of making the most out of its assets. This gives a good reflection on Penrose's methodology in which is stated that companies which do not have completely efficient employment and proper direction, has a great impact on the company's goals in terms of its choice of growth in a certain course.

Company's choice about entering a certain market is mostly affected by its resources and capabilities, requirements and qualifications that are peculiar to the chosen market and the ability of successful correlation between the company's resources and market characteristics. For an easier apprehension, companies tend to take part in markets that already have a strong correlation to its current resources in terms of its utilization.

If a company finds it very unlikely to create a competitive advantage in several activities (e.g. marketing and production), it is probably not going to invest and enter that market. A company could continue its production in the home country while using entry mode which provides them with marketing activities (e.g. indirect exporting).

On the other hand, if a company finds it possible to create a competitive advantage in one of its value chain activities, such as production, then it might take into consideration to install manufacturing plant in the foreign market and use it to supply other markets. In the case when the marketing activities provide a competitive advantage in the foreign market, and not production ones, a company could leave the manufacturing plant where it already is and use one of the export entry modes to supply selected market.

A firm can transfer its resources to the host market via internal company-owned modes or via arm's length market modes and the choice between these two alternatives rests upon the firm's ability to transfer its advantage-generating resources to host country partners and associates (Sharma & Erramili, 2004, p. 10). According to authors, they contend that if it is very unlikely for a company to shift such resources, it will probably use one of the hierarchical entry modes.

The company's capacity to shift advantage generating resources to the foreign market company is defined by imitability, which is already mentioned, and foreign market company's incapacity to obtain/acquire those resources due to several reasons (lack of experience, low financial status, different cultures, etc.). The former mentioned issue is the focus of the so called

Organizational Capability perspective to which I will give a bit more focus in the later part of thesis.

Indirect export

Under indirect exporting, a company decides to do manufacturing and marketing operations in its home country without any interest to shift any of those to the foreign market. In other words, a company does business with another company from its home country which, as agreed, takes over transport, distribution, and marketing operations in the foreign market. In this case, they have several different types of indirect exporting which they can choose among export buying agent, broker, export management company, trading house or piggyback.

Sharma and Erramili (2004) stated that the RBV theory gives an intriguing clarification for this. At the point when the probability of a company to create a competitive advantage in manufacturing and marketing operations in the foreign market is low, the company is probably not going to enter that market. Instead, it might decide to become present in that market through another company which has already established network, experience and whose resources are more likely to fit with foreign market characteristics or, more clearly, to use one type of indirect exporting modes of entry.

Direct exporting

Entering the market via direct export, a company is straightforwardly engaged with marketing activities in a foreign market, while the distribution of its products is done by a third party (e.g. distributor) or by the company itself. Sharma and Erramili (2004) distinguish these two types of direct exporting where the former is defined as "direct exporting via host country intermediary" and the latter as "direct exporting via company-owned channel".

Based on an RBV theory, in the case that a company finds that it cannot create a competitive advantage in their manufacturing activities in the foreign market, it will opt for direct exporting if only the creation of a competitive advantage is possible by marketing related operations. The company could use foreign agents or distributors (direct exporting via host country intermediaries) if they are in the position to shift to them vital marketing-related resources for competitive advantage creation or if the company itself necessitate access to such resources in the foreign market. Be that as it may, it is probably going to opt for its own direct export (direct exporting by means of company owned channels) if it is not possible to shift resources to the foreign-based agents/distributors or it is needless for the company to have one more party in the internationalization process to get access to vital resources.

Contractual modes

RBV also dealt with intermediate entry modes. In the case that a company is confident in a higher probability of a competitive advantage creation in manufacturing and marketing value chain activities in foreign markets, and that the majority of these resources are less demanding to be organized, collected and shifted to the partner in a foreign market, then the company will opt for intermediate entry modes such as franchising or licensing agreements.

Obviously, it is vital that these resources are legally defended through copyright agreements or patenting and, as a result, entrant companies will have financial gains from those resources. Unlike franchising and licensing, RBV states that management contract (e.g. contract manufacturing) offer company a larger level of control over most of the operations conducted in the foreign market. In their Organizational Capability perspective Erramilli, Agarwal, and Dev (2002) have effectively clarified the decision between the management contracts and franchising in a hotel industry. In this case, companies will opt for franchising only if their competitive advantage creating resources are completely movable to partners in foreign markets, but, on the other hand, if some of those resources are not easily movable to the foreign market partner, they will opt for management contracts.

Joint Venture

Based on the RB theory, if a company decides to enter the foreign market by establishing a joint venture, it is only based on the fact that it believes that the creation of competitive advantage is possible by transferring both, manufacturing and marketing operations to the entered market.

In a case in which a company finds it very likely to transfer just one part of the resources needed for establishing a competitive advantage (e.g. manufacturing), it will decide to establish manufacturing based joint venture, in which foreign market partner will take over responsibility for manufacturing process and marketing operations remain the responsibility of entering company. On the other hand, if the foreign market partner becomes responsible for transferred marketing resources needed for the creation of competitive advantage and production operations stays in hands of entering the company in such cases company will opt for establishing marketing joint ventures.

Wholly owned subsidiary

Unlike other theories, which see wholly owned subsidiary as a monopolistic opportunity for a company (Hymer, 1976) or final stage in the process of internationalization (Johanson and Vahlne, 1977), Resource-Based theory equalizes it with Joint Ventures, where companies are simply convinced that they are able to transfer resources needed for creating a competitive advantage in the foreign market. More clearly, if a company finds it too demanding to shift its resources to the foreign market partner due to the company's capacity and foreign market partner inability to obtain/acquire such resources, it will opt for Wholly Owned Subsidiary as a market entry mode.

Production activities		Marketing activities		
Firms likelihood of establishing comparative advantage in the host country	Firms ability to transfer advantage-generating resources to host country partners	Firms likelihood of establishing competitive advantage in the host country	Firms ability to transfer advantage-generating resources to host country partners	Entry Mode favoured by the RBV framework
Low	N.A.	Low	N.A.	Do not enter, indirect exporting
Low	N.A.	High	High	Direct exporting via host country intermediaries
Low	N.A.	High	Low	Direct exporting via company owned channels
High	High	High	High	Contractual mode (licensing, franchising)
High	High	High	Low	Production (joint venture)
High	Low	High	High	Marketing (joint venture)
High	Low	High	Low	Wholly Owned Subsidiary

Table 4 The RBV explanation for entry mode choice (Sharma & Erramili, 2004, p. 11)

Madhok (1998) examined what are the correlations between the company's ability of managing business through exchange expenses and its methods of entering foreign markets. The researcher was investigating the choices and options of entering new foreign markets from two points of view, through various modus such as entering as a subsidiary or joint venture. To begin with the first one, there is a hierarchical ability inside an organization, sort of speak the organizational capability (OC) point of view, where the procurement, advancement and sending of a company's capacities are fundamental. Second thing, the companies find a way of entering new foreign markets through minimized expenditures.

From the organizational capability (OC) point of view, a company's abilities are its main and most important tools and represent its principal competitive advantage, but can be limits as well in trying to bring out the business in international environment. The company's know-how depends on how an organization functions through its working habits and practices that has gained through years of operating. The researcher explained the relations and connections of a company's anterior related involvements and its decision in a what way to get involved in a new environment. His examination demonstrated that the more noteworthy a company's ability for going international or capacity to oversee foreign activities, the likelier it will enter through subsidiaries. This is the situation where organizations can more usefully operate and exchange assets inside its own scope, and additionally to deal with the vulnerabilities of the outside conditions that a company can face in a foreign market.

Henceforward, it is substantial that the companies have a rapid adaptation through gaining new knowledge and experiences to any kind of possible alterations in the environment it plans to operate. Sometimes the standard way of operating can interfere in acquiring new practices that are more efficient and cause a deceleration in working more efficient way that can significantly lower the expenses and save time. Therefore, the companies might want to enter the market in the shape of Joint Venture with the goal that it can use its existing practices and have an advantage from the similar ones that the accomplice organization already has.

Still, the more different the sociocultural distinction between the foreign accomplice organization and the domestic environment is, the more the company leans towards already learned methods and habits of working. Because of the sociocultural distinction, a company's standard operating ode may not be suitable enough and productive in the new foreign market.

In any case, the company may lean toward these productivity lapses to the absence of viability in exchanging their skills to another enterprise.

From the internationalization view point, the MNE plans to use its already learned way of operating in a new foreign market that is not interfering its imagined business operations. The lesser are the performance expenses, the more utilized is foreign market entry. Madhok recorded implied quality of a company's expertise, execution vagueness, association between differently positioned units in terms of geological place, and natural unpredictability joined with resource particularity, as essential for the entering mode choice from the internationalization view point.

In general, the examination demonstrated that the OC point of view is more compelling in the clarification of a company’s decision in which way to enter the foreign market, in light of the fact that the internationalization was not unequivocally upheld in this examination. In the end, a company chooses its entrance mode preferably in view of its previously learned foreign events and information that it has rather than on the capability to limit the exchange costs.

Luo (2002) examined the subject of capacity utilization and working of MNEs in rapidly changing and complex international markets. More explained, utilization and creating new abilities were connected to the company’s domain and its operating attributes. As Luo (2002) has stated, capability building happens when an organization is able to utilize already existing techniques and practices in a new environment or when is capable to conform to a changing environment in order to successfully overcome a possible obstacle. From another stand of point, capability exploitation, is when a company utilizes its present assets that can be hard to copy, allowing the company to make a profit that are beyond the ones that the company is used to having. Talking about capability building, it can be said that it is characteristically for it to be able to form new abilities in order to adapt to the new foreign market, while capability exploitation is set to place its learned practices to domestic actions.

The examination proved that environmental diversity is negatively connected with an MNE’s capability exploitation including the capability building as well. The same is valid for industrial structural uncertainty, which is influenced by the similar market environment and the its possible distinctions and variability. As an outcome, it can be discussed that the more diverse new environment or the industrial composition is, the less powerful capacities an MNE will be able to send.

Furthermore, it had been tested that business cultural specificity is poorly, to some extent it can be said that it is negatively connected to the capability exploitation, which depicts the degree of the variety of the foreign country's commerce practices from international norms. On the other hand, capability building is not influenced by the level of commerce specificity.
Wholly owned entry modes encourage capability exploitation, while Joint Venture entry modes encourages capability building. So, the learning capability of MNEs that is working close with domestic firms is improved.

Entering a market through a JV will cut back the results of surrounding complexness, organizational insecurities and cultural known norms, since the MNE will enjoy the domestic company's country-specific resources and practices and its business connections and relations. Environmental changes in terms of structural differences and insecurities, have a much significant impact on the capability building course when making its way to the market in the form of the wholly owned form. The wholly owned form, nevertheless, can inspire the MNE to find a new stimulus in exploring and building up its current potential abilities. This entry mode can secure a strong structural managing of the MNE over the domestic operations.
Briefly said, choosing an entry mode should already be set as a part of environmental possible changes. MNE should adapt its abilities and practices to the domestic market, which can be extenuated via JV entry mode.

Chen (2008) examined the impact of capability procurement on the type of selection that companies make while searching for an international market entry mode. MNEs have the practice to involve to the international market through wholly owned subsidiaries when they recognize an opportunity to easily obtain local market's assets in terms of property, goods or propriety. If one of the mentioned assets can't be obtained or acquired in an easy way, the company can go into the market in a form of partially-owned Greenfields, such as JVs.

In short, it can take part in the international target preference with the domestic associate that already has a share on the market. Moreover, Chen (2008) described an acquisition in a partial form, which is explained as a co-option of half of the section of the foreign company share on the market. But, this is not the most suitable entry mode as the MNE has to operate in a coownership and can easily be confronted with the various problems since its decision making is limited and simple steps, such as contract defining, can be easily become an obstacle in further business operations. Chen (2008) further stated that the MNE that do not hold a crucial asset or an ability to successfully function in an international market, if it is possible, it should fully take an ownership over a domestic company. The advantage of this type of ownership would be a free choice decision making and taking control of all aspects of business including managing expenses, human resource, structural organization, etc.

Meyer, Wright and Pruthi (2009) made a division of entering foreign market entry modes according on their ability for increasing the partner's assets such as skills, practices and know-how. The scientists discussed that companies need to properly choose a way of entering international markets in order to enhance their core assets.

They separated low, medium and high resource-augmenting entry modes. The modes are differentiated by the various ways of taking over the foreign host company assets that the mentioned company owns. High resource-augmenting entry mode is described as a complete takeover or taking over a majority of the foreign host company. Low resource-augmenting entry mode is described as the least utilized way of using host's assets. It is further explained as a mode that uses minimal resources in terms of contractual cooperation, export business, business commissions and similar actions. In short, this entry mode is the poorest way of using and learning new international skills and practices. Medium resource-augmenting entry mode represent a co-option of the two mentioned above. The entering company can partially use the host company's resources as well as the knowledge behind it. This mode is widely present in JVs, partial acquisition, representative offices with foreign and local professionals.

In addition, the scientists drafted several suggestions that are not yet investigated. In their suggestions they affirmed that MNEs that have a strong research and development department in their home countries tend to use its own resources, skills, know how in order to go international rather than using asset-increasing entry modes. This refers to the companies that have specialized goods and services as well where its clients' needs have small differences no matter the country they operate with. Nevertheless, MNEs that decide to join markets where the main goal is to compete in terms of using its best abilities strive to use asset-increasing entry modes in order to possess the local knowledge, practices, techniques and technologies.

Conclusion

Entering foreign markets empowers organizations to adventure and enlarge their asset bases. Multinational companies can increase their competitive advantage on the international scale when they introduce their assets and resources to the new markets. Competitive advantage can be maintained and developed only if the companies constantly adapt to the changes that happen on the market. Entering the market through a Joint Venture can encourage the change and adaptation in accordance to the new market, as domestic companies have particular information regarding the market, systems and other basic resources. Entering through a wholly owned subsidiary is only recommended when the companies which plan to go international already have knowledge and previous experience in managing international businesses. In general, the decision of type of the market entry mode should be chosen in accordance with the company's assets, abilities, skills and knowledge that can be adapted to the new markets.

The scientists who researched the RBV models made a focus firstly on the company's assets and capacities while disclosing its choice to enter foreign markets. For an easier understanding, the research and development operations, different ways of operating and conducting various segments in an organization, showed if the company is willing and ready to enter new markets or even go international. The RC-based model discussess that, mainly, companies have the tendency to choose new markets which are already very alike with its current operations instead of entering markets of different industries.

So to say, the more comparable the prerequisites of an industry and the company's asset attributes are, the bigger is the chance that the company will make the decision to enter a certain market. But the decision of which market would a company engage in has not been researched.

This thesis was not meant to rate and value the RBV, but rather to point out its course of direction, characteristics and what kind of impact it can have when it comes to make a decision in what way to enter other markets, either foreign or the ones that are different than the current ones that a certain company is involved.

Future research are supposed to estimate which of the theories discussed previously, not only RBV, already being the base for any type of decision making in an organization, would result in more noteworthy achievement over the long period of time. Also, there ought to be incorporated different costs combined with, for example, the gathering and the valuation of various (outer and inner) components and conditions that can be faced on the market.

The scientists involved in the examinations could evaluate and investigate the correlation between the models, their researchers, already written essays and conclusions. Future studies could engage and put more effort in exploring the company’s specific goals when deciding to go international.

Another possible weakness of the research could be the absence of the incorporation of the organizations' way of doing business. The relationship and the impact it can have on eachother when it comes to the internationalizing company and its possible accomplice should be incorporated in the study as well.

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Appendices

Appendix 1

How licensing and franchising differ	
Licensing	**Franchising**
The term ‘royalties’ is normally used. Products, or even a single product, are the common element. Licences are usually taken by well-established businesses. Terms of 16–20 years are common, particularly where they relate to technical know-how, copyright and trade marks. The terms are similar for patents. Licensees tend to be self-selecting. They are often established businesses and can demonstrate that they are in a strong position to operate the licence in question. A licensee can often pass its licence on to an associate or sometimes unconnected company with little or no reference back to the original licensor. Usually concerns specific existing products with very little benefit from ongoing research being passed on by the licensor to its licensee. There is no goodwill attached to the licence as it is totally retained by the licensor. Licensees enjoy a substantial measure of free negotiation. As bargaining tools they can use their trade muscle and their established position in the marketplace.	‘Management fees’ is regarded as the appropriate term. Covers the total business, including know how, intellectual rights, goodwill, trademarks and business contacts. (Franchising is all encompassing, whereas licensing concerns just one part of the business.) Tends to be a start-up situation, certainly as regards the franchisee. The franchise agreement is normally for 5 years, sometimes extending to 11 years. Franchises are frequently renewable. The franchisee is very definitely selected by the franchisor, and its eventual replacement is controlled by the franchisor. The franchisor is expected to pass on to its franchisees the benefits of its ongoing research programme as part of the agreement. Although the franchisor does retain the main goodwill, the franchisee picks up an element of localized goodwill. There is a standard fee structure and any variation within an individual franchise system would cause confusion and mayhem.

How licencsing and franchising differ (Hollensen, 2011, p. 364)

Appendix 2

Stages in joint-venture formation
1. Joint venture objectives Establish strategic objectives of the joint venture and specify time period for achieving objectives.
2. Cost–benefit analysis Evaluate advantages and disadvantages of joint venture compared with alternative strategies for achieving objectives (e.g. licensing) in terms of: (a) financial commitment (b) synergy (c) management commitment (d) risk reduction (e) control (f) long-run market penetration and (g) other advantages/disadvantages.
3. Selecting partner(s) (a) profile of desired features of candidates (b) identifying joint-venture candidates and drawing up shortlist (c) screening and evaluating possible joint-venture partners (d) initial contact/discussions and (e) choice of partner.
4. Develop business plan Achieve broad agreement on different issues.
5. Negotiation of joint-venture agreement Final agreement on business plan.
6. Contract writing Incorporation of agreement in legally binding contract, allowing for subsequent modifications to the agreement.
7. Performance evaluation Establish control systems for measuring venture performance.

Stages in join-venture formation (Hollensen, 2011, p. 368)

Appendix 3

Export mode	Advantages	Disadvantages
Indirect exporting (buying agent, broker or export management company	Limited commitment and investment required. High degree of market diversification is possible as the firm utilizes the internationalization of an experienced exporter. Minimal risk (market and political). No export experience required	No control over marketing mix elements other than the product. An additional domestic member in the distribution chain may add costs, leaving smaller profit to the producer. Lack of contact with the market (no market knowledge acquired). Limited product experience (based on commercial selling).
Direct export (distributor or agent)	Access to local market experience and contacts with potential customers. Shorter distribution chain (compared to indirect exporting). Market knowledge acquired. More control over marketing mix (especially with agents). Local selling support and services available.	Little control over market price because of tariffs and lack of distribution control (especially with distributors). Some investment in sales organization required (contact from home base with distributors or agents). Cultural differences, providing communication problems and information filtering (transaction costs occur). Possible trade restrictions.
Export marketing groups	Shared costs and risks of internationalization. Provide a complete product line or system sales to the customer.	Risk of unbalanced relationships (different objectives). Participating firms are reluctant to give up their complete independence.

Advantages and disadvantages of the different export modes for the manufacturer (Hollensen, 2011, p. 350)

Appendix 4

Intermediate entry mode	Advantages	Disadvantages
Contract manufacturing	Permits low-risk market entry. No local with no risk of nationalization or expropriation. Retention of control over R&D, marketing and sales/after-sales service. Avoids currency risks and financing problems. A locally made image, which may assist in sales, especially to government or official bodies. Entry into markets otherwise protected by tariffs or other barriers. Possible cost advantage if local costs are lower. Avoids intra-corporate transfer-pricing problems that can arise with a subsidiary.	Transfer of production know-how is difficult. Contract manufacture is only possible when a satisfactory and reliable manufacturer can be found – not always an easy task. Extensive technical training will often have to be given to the local manufacturer's staff. As a result, at the end of the contract, the subcontractor could become a formidable competitor. Control over manufacturing quality is difficult to achieve despite the ultimate sanction of refusal to accept substandard goods. Possible supply limitation if the production is taking place in developing countries.
Licensing (seen from the licensor's viewpoint)	Increases the income on products already developed as a result of expensive research. Permits entry into markets that are otherwise closed on account of high rates of duty, import quotas and so on. A viable option where manufacture is near the customer's base. Requires little capital investment and should provide a higher rate of return on capital employed. There may be valuable spin-off if the licensor can sell other products or components to the licensee. If these parts are for products being manufactured locally or machinery, there may also be some tariff concessions on their import. The licensor is not exposed to the danger of nationalization or expropriation of assets. Because of the limited capital requirements, new products can be exploited rapidly, on a worldwide basis, before competition develops. The licensor can take immediate	The licensor is ceding certain sales territories to the licensee for the duration of the contract; should it fail to live up to expectations, renegotiation may be expensive. When the licensing agreement finally expires, the licensor may find they have established a competitor in the former licensee. The licensee may prove less competent than expected at marketing or other management activities. Costs may even grow faster than income. The licensee, even if it reaches an agreed minimum turnover, may not fully exploit the market, leaving it open to the entry of competitors, so that the licensor loses control of the marketing operation. Danger of the licensee running short of funds, especially if considerable plant expansion is involved or an injection of capital is required to sustain the project. This danger can be turned to advantage if the

	advantage of the licensee's local marketing and distribution organization and of existing customer contacts. Protects patents, especially in countries that give weak protection for products not produced locally. Local manufacture may also be an advantage in securing government contracts.	licensor has funds available by a general expansion of the business through a partnership. License fees are normally a small percentage of turnover, about 5 per cent, and will often compare unfavourably with what might be obtained from a company's own manufacturing operation. Lack of control over licensee operations. Quality control of the product is difficult – and the product will often be sold under the licensor's brand name. Negotiations with the licensee, and sometimes with local government, are costly. Governments often impose conditions on transferral of royalties or on component supply.
Franchising (seen from franchisor's viewpoint)	Greater degree of control compared to licensing. Low-risk, low-cost entry mode (the franchisees are the ones investing in the necessary equipment and know-how). Using highly motivated business contacts with money, local market knowledge and experience. Ability to develop new and distant international markets, relatively quickly and on a larger scale than otherwise possible. Generating economies of scale in marketing to international customers. Precursor to possible future direct investment in foreign market.	The search for competent franchisees can be expensive and time-consuming. Lack of full control over franchisee's operations, resulting in problems with cooperation, communications, quality control, etc. Costs of creating and marketing a unique package of products and services recognized internationally. Costs of protecting goodwill and brand name. Problems with local legislation, including transfers of money, payments of franchise fees and governmentimposed restrictions on franchise agreements. Opening up internal business knowledge may create potential future competitor. Risk to the company's international profile and reputation if some franchisees underperform ('free riding' on valuable brand names).
Joint venture (seen from parent's viewpoint)	Access to expertise and contacts in local markets. Each partner agrees to a joint venture to gain access to the other partner's skills and resources. Typically, the international partner contributes	Objectives of the respective partners may be incompatible, resulting in conflicts. Contributions to joint venture can become disproportionate. Loss of control

	financial resources, technology or products. The local partner provides the skills and knowledge required for managing a business in its country. Each partner can concentrate on that part of the value chain where the firm has its core competence. Reduced market and political risk. Shared knowledge and resources: compared to wholly owned subsidiary, less capital and fewer management resources are required. Economies of scale by pooling skills and resources (resulting in e.g. lower marketing costs). Overcomes host government restrictions. May avoid local tariffs and non-tariff barriers. Shared risk of failure. Less costly than acquisitions. Possibly better relations with national governments through having a local partner (meets host country pressure for local participation)	over foreign operations. Large investments of financial, technical or managerial resources favour greater control than is possible in a joint venture. Completion might overburden a company's staff. Partners may become locked into long-term investments from which it is difficult to withdraw. Transfer pricing problems as goods pass between partners. The importance of the venture to each partner might change over time. Cultural differences may result in possible differences in management culture among participating firms. Loss of flexibility and confidentiality. Problems of management structures and dual parent staffing of joint ventures. Nepotism perhaps the established norm.
Management contracting	If direct investment or export is considered too risky – for commercial or political reasons – this alternative might be relevant. As with other intermediate entry modes, management contracts may be linked together with other forms of operation in foreign markets. Allows a company to maintain market involvement, so puts it in a better position to exploit any opportunity that may arise. Organizational learning: if a company is in its early development stages of internationalization, a management contract may offer an efficient way of learning about foreign markets and international business.	Training future competitors: the management transfer package may in the end create a competitor for the contractor. Creates a great demand for key personnel. Such staff are not always available, especially in SMEs. Considerable effort needs to be put into building lines of communication at local level as well as back to contractor. Potential conflict between the contractor and the local government as regards the policy of the contract venture. Little control, which also limits the ability of a contractor to develop the capacity of the venture

Advantages and disadvantages of the different intermediate modes (Hollensen, 2011, p. 376)

Appendix 5

Hierarchical entry mode	Advantages	Disadvantages
Domestic-based sales representatives	Better control of sales activities compared to independent intermediaries. Close contact with large customers in foreign markets close to home country.	High travel expenses. Too expensive in foreign markets, far away from home country.
Foreign sales, branch/sales and production subsidiary	Full control of operation. Eliminates the possibility that a national partner gets a 'free ride'. Market access (sales subsidiary). Acquire market knowledge directly (sales subsidiary). Reduce transport costs (production subsidiary). Elimination of duties (production subsidiary). Access to raw materials and labour (production subsidiary).	High initial capital investment required (subsidiary). Loss of flexibility. High-risk (market, political and economic). Taxation problems
Region centres/ transnational organization	Achieves potential synergies on a regional/global scale. Regional/global scale efficiency. Leverage learning on a cross-national basis. Resources and people are flexible and can be put into operating units around the world	Possible threats: increasing bureaucracy, limited national-level, responsiveness and flexibility. A national manager can feel they have no influence. Missing communication between head office and region centres.
Acquisition	Rapid entry to new markets. Gaining quick access to: distribution channels, a qualified labour force, existing management experience, local knowledge, contacts with local market and government, established brand names/reputation.	Usually an expensive option. High-risk (taking over companies that are regarded as part of a country's heritage can raise considerable national resentment if it seems that they are being taken over by foreign interests). Possible threats: lack of integration with existing

		operation, communication and coordination problems between acquired firm and acquirer.
Greenfield investment	Possible to build in an 'optimum' format, i.e. in a way that fits the interests of the firm (e.g. integrating production with home base production). Possible to integrate state-of-the-art technology (resulting in increased operational efficiency).	High investment cost. Slow entry of new markets (time-consuming process)

Advantages and disadvantages of the different hierarchical modes (Hollensen, 2011, p. 398)