Entry Mode Choice in Emerging Markets

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Preface

This paper is a diploma study for the programme Industrial Economics and Technology Management at the Norwegian University of Science and Technology, written in the spring of 2012. The study is conducted as a part of my specialization in Strategy and International Business Development.

Qualitative research has been conducted to cover the topic of small and medium enterprises' choice of entry mode in emerging markets. I have found this topic highly interesting, especially as the emergence of these markets has caused a shift in global competition, and as entrants meet new challenges in these contexts. I hope the paper reflects my interest in the subject, and that the reader will get useful insights into how market entry may progress for small firms. Although the work has been challenging, it has also been an inspiring and valuable educational experience.

I would like to thank my four case companies, Petrell, SafeClean, Norske Ventiler and Sperre, for sharing valuable knowledge and experiences with me. Their contribution has been of essential importance to this study. Furthermore, I would like to thank Innovation Norway for allowing me to follow their Navigator-programme and observe one of the programme's seminars. I would also like to thank my academic advisor, Arild Aspelund at the Department of Industrial Economics and Technology Management, for providing good guidance and constructive feedback throughout the process. Lastly, I would like to thank Kine Kyrkjebø, Kari Navestad, Bernard John Pridden and Harald Aarrestad for reading my thesis and making useful comments in the finishing process.

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Abstract

As the mature markets of developed economies have become increasingly saturated, firms are turning their attention towards emerging markets for further enterprise growth. However, these countries often present significant challenges for foreign entrants, forcing firms to adapt their strategies to the new context. While MNEs' entry mode choice is an extensively studied field, there is a deficit in the entry mode research on SMEs, and even more so when it comes to entry into emerging markets in particular. This thesis seeks to broaden the field by exploring the extent to which existing entry mode literature may be generalized to apply also to SMEs entering emerging markets. In order to draw inferences about theory, the objective of this thesis was to investigate which factors that influence the entry mode choice of SMEs in emerging markets, and how these factors influence the choice. To address the objective, this thesis has performed a qualitative case study of four Norwegian technology-based SMEs entering Brazil.

The theoretical perspectives which were proposed to be most relevant were transaction cost theory (TCT), Resource-based theories (RBTs) and institutional theory (IT); leading theories within MNE research on both entry mode choice as well as emerging market strategy. Eight factors were found to influence the entry mode choice, of which five were drawn from the three theoretical perspectives. These factors are *country-specific experience*, *mode experience*, *uncertainty of demand*, *cultural differences*, *formal institutional risk, regulatory pressures*, *operating costs in the host country*, and *the resource base of the firm*. The first six influence the desired degree of resource commitment, flexibility, control and risk, as well as the need for a local partner, whereas the two latter acts as constraints by narrowing the range of feasible entry modes. As a result entry mode choice of SMEs was found to be restrained to the degree that certain theoretical expectations were overruled by cost and resource considerations, as well as risk aversion.

As a consequence, this thesis found that TCT may not be readily extendable to resource constrained and risk averse SMEs. Furthermore, due to the idiosyncratic nature of emerging markets, traditional stage models and their emphasis on general international experience is of lower value in these contexts. Still, other aspects within Resource-based theories were found to provide explanatory power. SMEs appear to apply previously developed mode capabilities, and leverage on external organizations when they lack important context-specific capabilities. Institutional theory is the theoretical perspective which provides the greatest insight into the entry mode choice of SMEs into emerging markets. The institutional environment of emerging markets constrains business activities and increases the cost of doing business. At the same time, institutions create pressures for conformity and an increased need for context-specific resources. Still, further research is needed to support the findings of this study. Moreover, as institutions constitute the domain in which the SME and its transactions are embedded, this study advocates the need for further investigation of interactive effects between institutional theory and other theoretical perspectives.

Sammendrag

Ettersom de modne markedene i verdens velutviklede økonomier er blitt stadig mer mettet, retter bedrifter nå oppmerksomheten mot såkalte fremvoksende markeder for videre vekst. Men utenlandske aktører møter ofte betydelige utfordringer i disse landene, noe som tvinger dem til å tilpasse sine strategier til den nye konteksten. Et viktig aspekt er valg av inngangsstrategi. Mens valg av inngangsstrategier blant store multinasjonale selskaper (MNSer) er et grundig studert felt, er det imidlertid et underskudd i forskningen rettet mot valg av inngangsstrategi for små og mellomstore bedrifter (SMBer). Dette underskuddet er spesielt fremtredende når det gjelder forskning dedikert til inngang i fremvoksende markeder. Denne oppgaven søker å utvide feltet ved å utforske i hvilken grad eksisterende litteratur innen inngangsstrategier kan generaliseres til også å gjelde for SMBers inngang i fremvoksende markeder. For å kunne trekke slutninger om teori, var formålet med oppgaven nærmere bestemt å undersøke hvilke faktorer som påvirker SMBers valg av inngangsstrategi i fremvoksende markeder, og hvordan disse faktorene påvirker valget. For å oppfylle målet, har denne avhandlingen utført et kvalitativt studie av fire norske teknologi-baserte SMBer som ønsker å entre Brasil.

De teoretiske perspektivene som ble foreslått mest relevante var transaksjonskostnadsteori, ressursbaserte teorier og institusjonell teori. Åtte faktorer ble funnet å påvirke SMBers valg av inngangsstrategi, hvorav fem ble ekstrahert fra de tre teoretiske perspektivene. Disse faktorene er *land-spesifikk erfaring, tidligere erfaringer med inngangsstrategier, usikkerhet i etterspørsel, kulturforskjeller, formell institusjonell risiko, regulatoriske press, driftskostnader i vertslandet*, samt *bedriftens ressursgrunnlag*. De første seks faktorene påvirker ønsket grad av ressursinnsats, fleksibilitet, kontroll og risiko, samt behovet for en lokal partner. De to sistnevnte fungerer som begrensninger i forhold til hvilke inngangsstrategier som realistisk sett er gjennomførbare, noe som medfører at teoretiske forventninger blir overstyrt av kostnads- og ressursbetraktninger, samt risikoaversjon.

Som en konsekvens av dette viste det seg at transaksjonskostnadsteori ikke nødvendigvis er overførbar til SMBer preget av ressursbegrensninger og risikoaversjon. Dessuten, fordi fremvoksende markeder er høyst idiosynkratiske av natur, viste det seg at tradisjonell internasjonaliseringsteori, og dens vekt på generell internasjonal erfaring, er av lavere verdi i denne konteksten. Likevel ble andre aspekter innenfor ressursbaserte teorier funnet å gi forklaringskraft. SMBer synes å utnytte kapabiliteter utviklet i forbindelse med tidligere benyttede inngangsstrategier. Videre søker de assistanse fra eksterne organisasjoner og aktører når de mangler viktige kontekstspesifikke ressurser. Institusjonell teori er det teoretiske perspektivet som gir størst innsikt i SMBers valg av inngangsstrategi i fremvoksende markeder. Det institusjonelle miljøet i fremvoksende markeder utgjør en begrensning for forretningsaktivitet, og øker kostnadene ved å operere i vertslandet. Samtidig skaper institusjoner konformitetspress og et økt behov for kontekstspesifikke ressurser. Likevel er ytterligere forskning nødvendig for å støtte funnene i dette studiet. I tillegg er det et behov for videre studier av integrerte effekter mellom institusjonell teori og de andre teoretiske perspektivene.

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1 Introduction

While the countries of the Western world have long been dominating international business, there is now an on-going shift in global competition and locus of power. As the markets of developed countries are becoming increasingly saturated, emerging markets are now viewed as the source of future opportunities. These countries, located mainly in Asia, Latin America, and Central and Eastern Europe (CEE), have over the past couple of decades experienced rapid growth and industrialization, and have increasingly opened their borders to foreign investment.

Nevertheless, although emerging markets present powerful opportunities, investing here does not come without certain risks. Firms accustomed to operating mainly in mature and well-developed economies face new challenges, such as weak legal systems, extensive government regulations and bureaucracy, and often significant cultural differences. Thus firms seeking to enter these countries need to re-evaluate their strategies, as their previous approaches may not be suitable in the new business landscape.

An important decision when entering emerging markets is the choice of entry mode; that is, the way the firm chooses to organize its business activities in a foreign country (Hill et al., 1990). The choice of entry mode is highly important, as it may determine how much of the foreseen profit potential that may actually be captured. Indeed, Anderson and Gatignon (1986) describe the entry mode choice as a "frontier issue" in international business. Regardless of which entry mode is chosen, the firm must commit considerable time and resources which are not retainable should the firm later wish to withdraw from the foreign activity.

Although entering a foreign country, especially an emerging market, presents significant difficulties, expanding abroad may be a necessity for many small firms, especially those whose competitive advantage is derived from frontier technology. As these often operate within niche markets, the domestic market may simply become too small. However, although small and medium enterprises (SMEs) are significant players in international trade (Brouthers & Nakos, 2004); most entry mode research has focused on larger multinational enterprises (MNEs) (Brouthers & Hennart, 2007; Schwens et al., 2011). As SMEs often face resource constraints and limited managerial capacity, it is not certain whether findings in the entry mode research on MNEs are applicable to their smaller counterparts. For instance, although some scholars (Brouthers & Nakos, 2004; Nakos & Brouthers, 2002) have found leading entry mode theories to be valid also for SMEs, other findings suggest that smaller firms react differently when faced with uncertainty in the host country (Schwens et al., 2011). According to Schwens et al. (2011), studies have found that SMEs react more sensitively to challenges arising from the institutional context because of resource scarcity and differences in ownership and dependence. Due to the inconclusive results in the literature, SMEs' entry mode choice is clearly an area that needs more attention; indeed, leading scholars have requested more research (Schwens et al., 2011). A more in-depth understanding of SMEs' entry mode choice is vital, as entry mode is found to have significant impact on SME

performance (Brouthers & Hennart, 2007). Moreover, according to Jones (1999) this topic is "perhaps the new frontier issue for research in the new millennium" (Jones, 1999, p. 18).

The deficit in SME entry mode research becomes even more striking when considering entry into emerging markets in particular. While research on MNEs' entry mode in these contexts is limited, SME research within this field is close to absent. This gap in the literature needs to be filled. The institutional environment in emerging markets differ significantly from that of developed economies (Peng et al,, 2009; Peng et al., 2008), and research on MNEs may not be transferrable. In addition, emerging markets are a challenging context, and smaller firms may be more vulnerable should their foreign entry fail to succeed, as Erramilli and D´Souza (1995) suggest that they do not have the same ability as larger firms to absorb losses. Hence making the right entry mode choice, as well as having the opportunity to exit if needed, becomes vital for managers of SMEs, and research to provide guidance may be highly valuable. Consequently, SMEs' entry mode choice in emerging markets is an important research subject which needs further contributions.

1.1   Objective of paper

As previously mentioned, research on the entry mode choice of SMEs entering emerging markets is limited, and the subject needs more attention. SMEs are growing in importance in the world today; hence this topic is highly relevant for international business. This thesis wishes to expand the literature field by exploring the extent to which existing entry mode literature may be generalized to apply also to SMEs entering emerging markets. Insight into this aspect will hopefully both enrich the entry mode literature, as well as provide managers of SMEs with advice and assistance when they seek to enter the challenging emerging markets. The general approach in entry mode research is to examine whether aspects drawn from various theoretical perspectives influence the entry mode choice in the direction proposed by theory. This study seeks to broaden the theory base of SME's entry mode choice in emerging markets, and will thus attempt to investigate factors that influence the choice in this domain. Once this has been answered, inferences may be drawn about theory. Based on this logic, this thesis is based upon the following research question:

Which factors influence the entry mode choice of small and medium enterprises (SMEs) entering emerging markets, and how do these factors influence the entry mode choice?

In order to address this research question, a structured approach is required. Relevant theories must be selected, and then used as a basis from which factors may be extracted and proposed influences may be drawn. Still, to build theory, predictions must be tested through the collection of empirical evidence (Wacker, 1998). This allows for an investigation of which aspects SMEs entering emerging markets actually consider in their entry mode choice, and the extent to which expected influences have an impact.

In regards to empirical evidence, this thesis will focus on four Norwegian technology-based SMEs that wish to enter the petroleum industry in Brazil. Brazil, which together with Russia, India, China and South Africa forms the high-potential BRICS-countries, is seen as one of the

major emerging markets of the world. With its booming petroleum industry, Brazil is considered particularly attractive to enter for market-seeking Norwegian companies within the oil - and gas industry. Nevertheless, although Brazil is the eighth largest economy in the world, it is a highly challenging country to enter; at the World Banks' 2011 "Ease of doing business" index, Brazil is ranked as number 126 out of the 187 countries investigated. Hence entering this difficult market may be a daunting task for small businesses unless guidance is provided.

1.2   Structure

This paper is divided into eight sections. Section two provides an overview of existing theory within the field, which is then applied to derive propositions regarding the entry mode choice. Section three describes the research process and how the results were found. Findings from the data collection are presented in sections four and five. Section six provides a discussion of the findings in light of the theory presented in section two, whereas section seven presents implications for theory, managers and policymakers, respectively. Section eight concludes the paper by summarizing the main findings and contributions of the study.

1.3   Limitations of scope

The focus of this study is on SMEs that have a developed economy as their home country; that is, the country in which the SME originates and has its headquarters. The home country thus provides the local context in which the SME is embedded. The rationale for this choice is that SMEs from developed economies are more likely to face new challenges when entering emerging markets, due to institutional differences.

2 Conceptual background

This chapter reviews theory relevant to the investigation of influences on SMEs' entry mode choice in emerging markets, and thus combines three different streams of literature: SMEs, emerging markets and entry modes. Relevant information within these three fields is briefly presented in succession in the first three sub-chapters. The remaining part of the chapter is dedicated to presenting relevant theories for the entry mode choice, and to derive propositions. Firstly, relevant entry mode theories perceived suitable to address the research question are selected. These theoretical perspectives are in turn applied to extract factors that are believed to have an impact on the entry mode choice. Lastly, the extracted factors are discussed in light of theory to deduce proposed relationships between these variables and the entry mode choice.

2.1 Small and medium enterprises

Today small and medium enterprises (SMEs) have become important players in international trade (Brouthers & Nakos, 2004). While the global market place was previously dominated by large, multinational enterprises (MNEs), technological advances, as well as the rapid globalization of the world economy have led to an increasing number of smaller firms entering foreign markets. Indeed, government statistics indicate that the majority of firms in international business can be classified as SMEs (Brouthers & Hennart, 2007); that is, firms with fewer than 250 employees and an annual turnover less than € 50 million (Pinho, 2007). Still, entry mode research on SMEs is lagging behind (Schwens et al., 2011). Even though the internationalization process of small firms has recently attracted a broader interest among scholars (Coviello & McAuley, 1999; Ruzzier et al., 2006), Brouthers and Nakos (2004) state that these studies tend to focus only on characteristics of SMEs that have decided to expand abroad. Thus they do not provide explanations of how SMEs select particular entry modes (Brouthers & Nakos, 2004). Although the entry mode literature is rich, scholars tend to focus on large, mature MNEs.

Nonetheless, it is not clear whether research on MNEs' entry mode choice is generalizable to SMEs (Nakos & Brouthers, 2002). Smaller businesses are not smaller versions of bigger businesses (Coviello & McAuley, 1999); they differ from larger firms in terms of managerial style, independence, and scale/scope of operations (Coviello & McAuley, 1999). Moreover, SMEs often face both managerial and financial resource constraints (Schwens et al., 2011), as well as limited experience and information sources (Coviello & McAuley, 1999). This may cause them to make different international strategic choices compared to that of MNEs (Brouthers & Nakos, 2004). For instance, several researchers suggest that SMEs generally adopt governance structures that require less resource commitment when venturing abroad (Burgel & Murray, 2000). Nonetheless, the literature on the entry mode choice of small firms is not consistent; there exists several rival theoretical approaches, whose findings at times are conflicting.

2.2 Emerging markets

According to Arnold and Quelch (1998), an *emerging market* can be defined as "a country that satisfies two criteria: a rapid pace of economic development and government policies favouring economic liberalization and the adoption of a free market system" (Hoskisson et al., 2000, p. 249). These countries have since the 1980s achieved substantial industrialization and modernization as well as rapid economic growth, and are experiencing improving living standards and a growing middle class with rising economic aspirations (Cavusgil et al., 2008). Emerging markets are mainly located in East and South-East Asia, Latin America, South Africa, the Middle East, as well as Central and Eastern Europe (CEE). *Transition economies* are a subset of emerging markets that have engaged in rapid privatization from centrally planned economies into liberalized markets (Cavusgil et al., 2008). The former socialist countries in East Asia, CEE and the independent states of the former Soviet Union all fall into this category (Peng, 2003). Table 1 depicts the countries which, according to Dow Jones, are regarded as emerging markets.

List of emerging markets			
Argentina	Bahrain	Brazil	Bulgaria
Chile	China	Colombia	Czech Republic
Egypt	Estonia	Hungary	India
Indonesia	Jordan	Kuwait	Latvia
Lithuania	Malaysia	Mauritius	Mexico
Morocco	Oman	Pakistan	Peru
Philippines	Poland	Qatar	Romania
Russia	Slovakia	South Africa	Sri Lanka
Thailand	Turkey	UAE	

Table 1: List of emerging markets (Dow Jones, 2012)

In terms of economic development, emerging markets are positioned in between *advanced economies* and *developing economies*. Advanced, or developed, economies are "post-industrialized countries that are characterized by high per-capita income, highly competitive industries, and well-developed commercial infrastructure" (Cavusgil et al., 2008, p. 256). The countries in North America, Western Europe and Scandinavia, as well as New Zealand and Japan, fall into this group (Cavusgil et al., 2008). According to Cavusgil et al. (2008), these economies are among the wealthiest in the world, and have long dominated international business. Developing economies are "low-income countries characterized by limited industrialization and stagnant economies" (Cavusgil et al., 2008, p. 256). Examples are countries such as Angola, Bolivia and Bangladesh. Poor living standards often prevail in these economies. Meanwhile, participation in the global economy, which could have stimulated economic growth, is hindered by bureaucracy and red tape[1] (Cavusgil et al., 2008).

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[1] A term for excessive regulation or rigid conformity to formal rules that is considered redundant or bureaucratic and hinders or prevents action or decision making.

[2] Mode types include wholly owned (variously defined as 80%, 95%, and 100% equity), equity joint venture,

2.2.1 Motives for entry into emerging markets

Due to their rapid growth, the increased liberalization of the markets, as well as the rise in purchasing power of the consumers, emerging markets have gained increased importance in the world economy as target markets, manufacturing bases and sourcing destinations (Cavusgil et al., 2008). As the markets in advanced economies are becoming increasingly saturated (London & Hart, 2004), firms have turned to emerging markets, as they believe these countries will provide the opportunities for further growth (Arnold & Quelch, 1998). Indeed, according to Khanna et al. (2005), emerging markets have since the early 1990s been the world's fastest growing markets for most products and services. In 2006 emerging markets accounted for 40 per cent of the world's GDP (Cavusgil et al., 2008). In addition to accelerated growth and increased openness, emerging markets also hold other benefits for foreign entrants. Skilled labour and trained managers are often relatively inexpensive (Khanna et al., 2005), thus operating costs may be lower than in advanced economies.

2.2.2 Risks and challenges of doing business in emerging markets

Although emerging economies are viewed as highly attractive markets, they are inherently more risky to enter than advanced economies. Although conditions have significantly improved compared to that of developing economies, researchers (Hoskisson et al., 2000; Meyer, 2001; Wright et al., 2005) agree that less developed market mechanisms prevail in emerging markets. According to Meyer (2009), necessary institutions must be in place for the market to function effectively, so that firms can engage in market transactions without incurring any undue costs or risks. However, in emerging markets, market-supporting institutions are often "weak"; that is, they fail to ensure effective markets, and may even undermine them (Meyer et al., 2009). For instance, there is often a lack of sufficient property rights protection (Hoskisson et al., 2000). Effective property rights protection ensures that the owner of an asset has discretion over the uses to which the asset is put, and is able to appropriate returns from the asset. Furthermore, legal frameworks are often weak (Hoskisson et al., 2000), with inefficient law enforcement (Ionascu et al., 2004) and underdeveloped court systems (Meyer, 2001). Together with an absence of reliable and consistent governance from recognized authorities (Cavusgil et al., 2008), this has allowed an increase in opportunism, bribery and corruption in emerging markets (Hoskisson et al., 2000). Additionally, Meyer et al. (2009) state that these countries often exhibit lack of proper information systems, and that identifying potential business partners consequently becomes more difficult. Another example of market inefficiency is the lack of specialized intermediaries; that is, economic entities that insert themselves between a buyer and a seller to facilitate the exchange (Ricart et al, 2004). Examples are market research firms or recruiting companies (Khanna et al., 2005).

A result of the deficiency of market-supporting institutions, Peng et al. (2009) argue that a common condition in emerging markets is a convergence toward social rules governing business activities. For instance, due to weak legal systems, Meyer et al. (2009) suggest that firms often rely on informal contracts based on norms, as opposed to litigation, and that relations are used to protect property rights (Meyer et al., 2009). Even though governments in

many emerging markets have increasingly altered formal laws and legal conducts to become more market-oriented, Dikova and Witteloostuijn (2007) argue that informal norms are substantially more resistant to change.

Due to their rapid growth and on-going development, emerging markets often exhibit high volatility (Meyer & Tran, 2006) as well as political and economic instability and shocks (Hoskisson et al., 2000). Moreover, institutional frameworks are often unstable during the change to market-based competition (Meyer, 2001), which causes uncertainty over future institutional changes. Consequently, emerging markets present significantly more environmental uncertainty than the more developed and mature economies of the world.

Furthermore, firms often meet governmental impediments when entering emerging markets. In many countries governments have policies favouring local firms (Cavusgil et al., 2008), while foreign firms often face restrictive policies (Delios & Beamish, 1999) and risks of public expropriation (Delios & Henisz, 2000). In addition, business activities are often substantially delayed by extensive bureaucracy (Meyer, 2001), such as excessive requirements for licences, permits and paperwork (Cavusgil et al., 2008).

The aforementioned challenges of entering emerging markets are summarized in Table 2.

Characteristics of emerging markets	
Weak market-supporting Institutions	• Weak legal systems • Lack of private property rights • Lack of information systems • Lack of specialized intermediaries
Informal rules substituting formal laws	• Importance of networks and relationships
Environmental uncertainty	• Economic instability • Political instability
Governmental Impediments	• Bureaucracy • Favourable treatment of local firms

Table 2: Characteristics of emerging markets

Nevertheless, although typical risks and challenges of emerging markets have been outlined, it is important to emphasize that there are substantial differences among the emerging markets of the world. Even though all these countries are characterized by rapid growth, Hoskisson et al. (2000) suggest that the pace of growth and political change, as well as the extent of economic gains, have not been uniform across all emerging markets. Peng (2003) argues that while some countries are closer to the border of a developing economy, others have advanced quite far. This author suggests that emerging markets go through several distinct phases in their process from heavily regulated countries to free-market economies. Peng's (2003) view is supported by several authors (Dikova & Witteloostuijn, 2007; Meyer et al., 2009), who range emerging markets as a function of institutional development. Hence the risks and challenges in Table 2 do not equally apply to all emerging markets.

2.3 Entry modes

The most commonly applied definition of entry mode is presented by Root (1987) (Sharma & Erramilli, 2004), who states that entry mode is "an institutional arrangement that makes possible the entry of a firm's products, technology, human skills, management, or other resources into a foreign country" (Sharma & Erramilli, 2004, p.2). For firms expanding abroad, selecting the appropriate entry mode is a critical decision (Brouthers & Hennart, 2007), but not an easy one. The entry mode choice usually involves trade-offs; each entry mode has its advantages and disadvantages. Moreover, firms face a wide range of entry modes to choose from; in their study reviewing entry mode research, Brouthers and Hennart (2007) identified in total 16^2 different mode types that had been included in previous studies. Nonetheless, different entry modes are usually grouped in seven broad categories, which are described in Table 3. Except in the case of partial acquisitions, Greenfield and acquisitions involves a subsidiary that is wholly owned by the foreign entrant.

Entry mode category	Description
Exporting **(direct and indirect)**	The strategy of producing products or services in the home country, and selling and distributing them to customers located in other countries. Exporting can be both indirect and direct. *Indirect exporting* is accomplished by contracting with intermediaries, such as an agent or distributor, in the host country, whereas *direct exporting* involves direct selling to the customer without intermediaries.
Licensing	An arrangement in which the owner of intellectual property grants another firm the right to use that property for a specified period of time in exchange for royalties or other compensation.
Franchising	An arrangement where the firm allows another firm the right to use an entire business system, in exchange for fees, royalties or other forms of compensation.
Alliances	An agreement and collaboration between a firm in the home market and a firm located in a host country to share activities in the host country. This study considers alliances to be non-equity based collaborations.
Joint ventures	A form of collaboration between two or more firms to create a jointly owned enterprise through equity investment. A partner in a joint venture may enjoy minority, equal or majority ownership.
Acquisitions	A direct investment to purchase an existing company or facility.
Greenfield	A direct investment to build a new manufacturing, marketing or administrative facility, as opposed to acquiring existing facilities.

Table 3: Entry mode categories (Cavusgil et al., 2008)

According to Cavusgil et al. (2008), the entry modes may be arranged along four dimensions (Figure 1): control, resource commitment, risk, and flexibility. However, all these dimensions are interrelated. By increasing resource commitment, the foreign entrant obtains a higher degree of control over their foreign operation. Meanwhile, firms committing more resources reduce their flexibility and are exposed to greater risk. Wholly owned subsidiaries (WOSs) as well as joint ventures (JVs) involve equity investments, and are so-called foreign direct investment (FDI) modes. Such modes involve the establishment of a physical presence

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[2] Mode types include wholly owned (variously defined as 80%, 95%, and 100% equity), equity joint venture, non–equity joint venture, level of equity ownership, contract, license, agent, majority joint venture, minority joint venture, export, equity, non-equity, management contract, franchise, cooperative (non-equity) ventures, and distributor.

abroad through acquisition of productive assets such as capital, labour, technology or plants (Cavusgil et al., 2008). Additionally, licensing, franchising and (non-equity) alliances may be grouped as contractual arrangements (Pan & Tse, 2000).
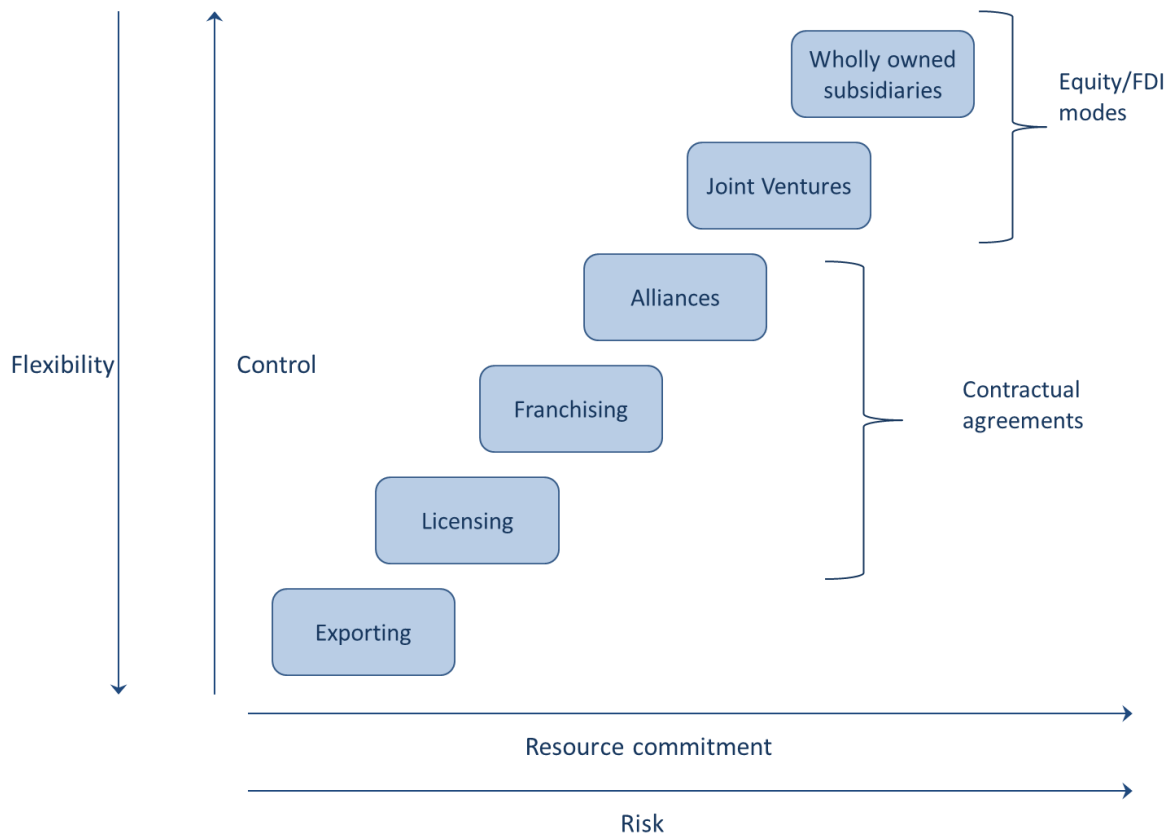
Figure 1: Arrangement of entry modes, adapted from Cavusgil et al. (2008)

Many scholars (Nakos & Brouthers, 2002; Brouthers & Nakos, 2004; Scwens et al., 2011) doing research on SMEs' entry mode choice investigate the choice of equity versus non-equity modes. However, Jansson and Sandberg (2008) argue that SMEs seldom enter foreign countries through FDI due to lack of resources. Thus this dichotomous choice may provide too limited an insight. Accordingly, this thesis will employ the arrangement in Figure 1 as a basis, and consider the whole range of entry modes displayed.

2.4 Presentation of entry mode theories

As discussed initially in this study, a structured approach based on theory is needed when investigating factors that influence SMEs' entry mode choice in emerging markets. Thus relevant theoretical perspectives should be used as a basis when proposing relationships. This section provides a rationale for the choice of theories, followed by an overview over each theory.

2.4.1 Rationale for choice of theories

Entry mode research is one of the most popular fields within international business. Over the years, numerous theories have been proposed to provide a theoretical background for examining and understanding the important strategic decision of entry mode (Sharma & Erramilli, 2004). Nevertheless, in their extensive literature review of the international entry mode research field, Brouthers and Hennart (2007) found that the most commonly applied theories are transaction cost theory (TCT), resource-based theories (RBTs), institutional theory (IT) and Dunning's eclectic framework. According to Brouthers and Hennart (2007), these theories provided the basis for almost 90 per cent of the published entry mode literature they reviewed. TCT states that entry mode is determined by the costs of transacting in the market compared to the costs of internalizing activities within the firm (Anderson & Gatignon, 1986); RBTs focus on the idiosyncratic resources and capabilities of the firm as drivers of firm performance (Meyer & Peng, 2005); IT suggests that firm behaviour, including entry mode choice, is influenced by the institutional environment (Brouthers & Hennart, 2007); and the eclectic framework focuses on advantages in ownership, location and internalization as determinants of entry mode. However, Brouthers and Hennart (2007) argue that the eclectic framework is not a theory in itself, but rather a tool that combines aspects from the three former theories. Moreover, the framework ignores important constructs developed and tested in the other theories (Brouthers & Hennart, 2007). Accordingly, these authors suggest that the way forward is to conduct studies which combine the most important insights from TCT, RBTs and IT.

As this paper studies entry into emerging markets, it is relevant to investigate which theories are most suitable for explaining entry mode behaviour in these countries. When reviewing strategy research, on emerging markets, including entry mode research, scholars (Hoskisson et al., 2000; Meyer & Peng, 2005; Wright et al., 2005) found that transaction cost theory, agency theory (AT, see definition below), resource-based theories and institutional theory are the leading theoretical foundations applied. IT is viewed as particularly important (Wright et al., 2005), as one of the main feature of emerging markets is a weak institutional framework (Peng et al., 2008). This causes transaction costs to rise (Meyer, 2001); hence TCT becomes relevant. Furthermore, in emerging markets there may be different types of resources which provides the firm with competitive advantage (Meyer & Peng, 2005), and RBTs may help firms understand which ones. AT is concerned with how governance forms may be created to ensure that managers as agents act in the interest of owners (Wright et al, 2005). However, this perspective is by Meyer and Peng (2005) suggested to have more value in explaining subsequent strategic behaviour *after* entry, especially monitoring of performance; thus AT is

not commonly found in entry mode research (Brouthers & Hennart, 2007). Hence both in general entry mode research as well as research specific to emerging markets, TCT, RBTs and IT are viewed as the dominant theories. Moreover, scholars (Brouthers & Hennart, 2007; Hoskisson et al., 2000; Wright et al., 2005) agree that it is especially the combination of the perspectives that are of uttermost relevance. These perspectives are complementary, in that TCT focuses on transaction level characteristics; RBTs focus on firm-level characteristics; while IT focuses on national characteristics of the host country.

Nonetheless, the literature reviewed on both entry mode (Brouthers & Hennart, 2007) as well as emerging market strategy (Hoskisson et al., 2000; Meyer & Peng, 2005; Wright et al., 2005) is mainly focused on MNEs. More recently, though, scholars have started to examine established MNE theories' applicability to SMEs, and Brouthers and Hennart (2007) suggest that many of the same theories also seem to apply to smaller firms. For instance, strong support is found for TCT's (Brouthers & Nakos, 2004) and Dunning's eclectic framework's explanation of SMEs' mode choice, while Schwens et al. (2011) argue for the usefulness of IT to SMEs, as smaller firms are found to react differently to uncertainty and the institutional environment (Schwens et al., 2011). Furthermore, within RBTs, international experience is one of the most commonly viewed determinants of mode choice (Brouthers & Hennart, 2007), which coincides with the view of traditional theories of SME internalization (Coviello & McAuley, 1999; Johanson & Vahlne, 1977).

Accordingly, this thesis suggests that the three theoretical perspectives TCT, RBTs and IT are highly relevant to the investigation of SMEs' entry mode choice in emerging markets. The study will adhere to scholars' request for future research by attempting to combine insights from the three perspectives. Moreover, as this is the first attempt to combine all three theories in relation to SMEs, a contribution of this study will be to compare the theories to examine whether some theories have greater explanatory powers than others regarding the entry mode choice.

2.4.2 Transaction cost theory

Transaction cost theory (TCT) states that the optimal solution for the boundaries of the firm, and hence entry mode, is the one that minimizes transaction costs (Anderson & Gatignon, 1986). A foreign entrant must weigh the costs of transacting through external parties in the market with the costs of internalizing activities within the firm, and choose the solution that is most efficient (Williamson, 1985). Transaction costs of using the market involve both *ex ante* costs related to identifying potential partners, as well as negotiating and drafting contracts, and *ex post* costs related to monitoring performance and enforcing the contracts (Williamson, 1985), whereas internalization costs are the costs of establishing and controlling the foreign operation. TCT has its roots in market failure theory, which states that firms exist due to imperfections in the market. Due to scale economies in the market place, transacting through contracts in the market will normally be preferred (Williamson, 1985). However, if markets are inefficient, then the costs of transacting through contracts in the market may exceed that of internalizing (Williamson, 1985), causing firms to choose a hierarchical solution for its foreign activities (Meyer, 2001).

There are two assumptions underlying the TCT framework. The first assumption is that economic actors suffer from bounded rationality (Williamson, 1985); they are intentionally rational, but only limited so (Peng et al., 2009). The second assumption is that actors may act opportunistically (Williamson, 1985). Williamson (1985) argues that because of these behavioural dimensions, writing a complete contract to govern market transactions may be difficult. Furthermore, scholars (Brouthers & Nakos, 2004; Zhao et al., 2004) suggest that in the case of foreign entry, there are three dimensions that influence transaction costs and hence the choice of entry mode: *asset specificity*, *external (market-specific) uncertainty* and *internal (behavioural) uncertainty*. Asset specificity is concerned with the degree to which an investment has value outside the particular transaction; external uncertainty influences the extent to which possible contingencies may be specified in a contract; and behavioural uncertainty affects the difficulty of verifying the performance of the other party (Anderson & Gatignon, 1986; Williamson, 1985; Zhao et al., 2004). According to Anderson and Gatignon (1986), the aforementioned dimensions determine the level of control needed over the foreign operations. Nevertheless, as Figure 1 shows, increased control also means decreased flexibility, and thus higher risk. Consequently, within the TCT framework, the entry mode decision is essentially a trade-off between the need for control and the need to maintain flexibility in the face of environmental risk. A wholly owned subsidiary is among transaction cost theorists perceived to provide the highest level of control. However, Burgel and Murray (2000) suggest that also direct exporting may be viewed as a form of internalization, as this mode of entry does not involve contracting with a third party. Thus direct exporting may also protect the firm from opportunistic behaviour and dissemination of knowledge, while at the same time the firm maintains flexibility through keeping resource commitment low. Thus, this thesis will distinguish between high control modes and high commitment modes.

2.4.3 Resource-based theories

Resource-based theories (RBTs) focus on idiosyncratic resources and capabilities as drivers of firm performance. This theory suggests that firms may use foreign markets to exploit unique resources they have developed, or to acquire and develop new resource-based advantages (Brouthers & Hennart, 2007). Barney (1991) suggests that for a firm's resources or capabilities to provide sustainable, competitive advantage, they must be valuable, rare, while at the same time being imperfectly imitable and hard to substitute (Brouthers & Hennart, 2007).

In their literature review, Brouthers and Hennart (2007) found that one of the most commonly explored resources in regards to entry mode research is experience, and that scholars suggest international experience provides a firm-specific advantage. According to Brouthers and Hennart (2007), the use of firm experience within entry mode research has evolved from internationalization theory (Johanson & Vahlne, 1977). This stream of research suggests that as firms over time get increased experience in foreign markets, they gradually increase their resource commitment, and move from simple exporting to more complex entry modes (Johanson & Vahlne, 1977). As mentioned in 2.4.1, the use of international experience as an entry mode determinant within RBTs and MNE research thus coincides with one of the most

commonly applied theoretical frameworks for examining the internationalization of SMEs, namely stage models (Coviello & McAuley, 1999), and is thus particularly relevant to incorporate in this study. Nonetheless, other types of experience have also been applied in the SME entry mode literature; Burgel and Murray (2000) suggest that one of the most important influences on smaller firm's entry mode choice is historic channel experience, such as experience with a certain sales mode. These authors' theoretical approach is the organizational capability (OC) perspective, which they argue has a greater explanatory power compared to the traditional stage-models of internationalization. The OC perspective suggests that a firm's value creating activities are a function of its resource and capability base (Burgel & Murray, 2000), thus this theoretical approach also falls within the RBTs category. According to OC theorists (Burgel & Murray, 2000; Madhok, 1997), present outcomes are strongly influenced by past experiences and routine. Hence firms will have built capabilities in their other markets which they can leverage upon in new foreign entries (Burgel & Murray, 2000). Accordingly, previous experience with particular entry modes is perceived to have an impact on later entry mode choices.

2.4.4 Institutional theory

Institutional theory (IT) states that institutions provide the "rules of the game" to which a firm must adhere in a certain market (Brouthers & Hennart, 2007). According to North (1990), institutions may be defined as the "humanly devised constraints that structure human interactions" (North, 1990, p. 3), while Scott (1995) states that institutions are the "regulative, normative and cognitive structures that provide stability and meaning to social behaviour" (Scott, 1995, p. 33). The rise of IT has been spurred by a broader new institutionalism movement over the last three decades by both economists (North, 1990; Williamson, 1985) and sociologists (DiMaggio & Powell, 1983; Scott, 1995), which has resulted in two streams of literature within IT; one economic and one sociological. Although the common theme among institutional theorists is that institutions shape firm behaviour, the underlying assumptions and rationales of the two literature streams differ, causing a twofold contribution of IT to entry mode research.

An economic perspective on institutions
The economic line of reasoning argues that a country's institutional framework is an important determinant of market imperfections, and focuses on how firms through their entry mode choice may maximize their economic efficiency, given the prevailing institutional environment. The role of institutions is to reduce uncertainty and facilitate a stable structure for exchange (Meyer, 2001). Hence, depending on their efficiency, institutions may either assist or constrain business activities. Either way, in order to succeed, firms must adjust their strategies to the rules of the game. More specifically, institutional economists (Meyer, 2001; North, 1990) focus on how institutions affect the costs of doing business, and how firms accordingly should adapt. North (1990) states that there are two types of institutions – formal and informal – that together form the institutional environment (Meyer, 2001). *Formal institutions* mainly include laws and regulations (Gelbuda et al., 2008), and the emphasis is on political and legal aspects. Informal institutions include for instance traditions, customs

and taboos (Gelbuda et al., 2008), and are based on the norms and cognitions of individuals. The costs and challenges of doing business particularly increase when formal institutions are poorly developed (Meyer, 2001), and when firms face an institutional environment with which they are not familiar (Xu & Shenkar, 2002). In any case, firms must choose the entry mode that is most efficient in light of the host country's institutional context.

A sociological perspective on institutions

Sociologists, on the other hand, state that the institutional environment defines the rules and norms of what is considered *legitimate* (Yiu & Makino, 2002). According to these scholars, entry mode is not chosen based on efficiency-criteria; the choice depends on what will make the firm achieve legitimacy in the institutional environment of the host country. Scott (1995) divides the institutional environment into three pillars; regulatory, cognitive and normative (Peng et al., 2009). The regulatory pillar is the rules and laws that exist to ensure stability and order in societies; the cognitive pillar refers to the established cognitive structures in society that are taken for granted; and the normative pillar refers to the domain of social values, cultures and norms (Yiu & Makino, 2002). Kostova and Roth (2002) argue that each of these pillars exerts pressures for isomorphism[3] (coercive, mimetic and normative, respectively), which makes firms conform to the institutional environment in order to gain legitimacy (DiMaggio & Powell, 1983). First, there exists a *coercive isomorphism* to conform to rules imposed on the firm by a more powerful authority (Kostova & Roth, 2002). Second, *mimetic isomorphism* rises by the fact that firms facing uncertainty imitate the patterns of other firms that have already achieved legitimacy and success in the host environment (Kostova & Roth, 2002). Yiu and Makino (2002) argue that this mimicry occurs because certain firm structures and behaviours are placed within the cognitive schemata of firms as 'successful', which, due to limited cognitive abilities, make firms fail to consider other alternatives that might have been more efficient (Yiu & Makino, 2002). Third, *normative isomorphism* occurs as firms adopt patterns and norms considered appropriate in the host environment (Kostova & Roth, 2002). Accordingly, foreign entrants must conform to each institutional pillar to achieve legitimacy (Kostova & Zaheer, 1999), and this will influence the entry mode choice.

Based on this reasoning, sociologists criticize the 'efficiency' criterion of institutional economists, as they do not share the assumption of the firm being a 'rational economic actor'. The objective of the sociological perspective is to overcome limitations of the rational choice model, by stating that firms face institutional environments that 'pressure' them to make certain strategic choices. Moreover, Peng et al. (2009) suggest that bounded rationality of managers and firms should be a core proposition of institutional theory. These authors argue that "firms rationally pursue their own interests and make strategic choices within the formal and informal constraints in a given institutional framework" (Peng et al., 2009, p. 67); however, this rationality is bounded as they may fail to comprehend all the nuances of the cognitive and normative institutions. This complicates the attainment of legitimacy.

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[3] Isomorphism is a constraining process that forces one unit in a population to resemble other units that face the same set of environmental conditions (DiMaggio & Powell, 1983)

Table 4 provides a summary of the differences between the economic and the sociological perspective on institutions. While institutional economics view the MNE as a rational actor that seeks to maximize efficiency in response to various costs of doing business, sociologists suggest that firms suffer from bounded rationality and that they seek to conform to what institutions define as legitimate.

	Economic IT	Sociological IT
The firm	Rational economic actor	Suffers from bounded rationality
Objective	Efficiency	Legitimacy
Role of institutions	Determines cost of doing business	Determines what is legitimate
Authors	North (1990)	Scott (1995)

Table 4: Differences between the economic and the sociological perspective on institutions

Nevertheless, even though the two perspectives may differ in their underlying assumptions, Peng et al. (2009) suggest that they also share a great deal of similarity. Scott's (1995) regulatory pillar corresponds to North's (1990) formal institutions, while the normative and cognitive pillar encompasses informal institutions. Hence the two literature streams within IT are complementary. Still, a conflict between the two perspectives arises because the entry mode that would provide the firm with legitimacy may be at odds with efficiency requirements of the firm (DiMaggio & Powell, 1983). Hence, when investigating SMEs' entry mode choice, it is important to understand how both perspectives on institutions may influence the decision when entering a specific host country.

2.5   Development of propositions

The objective of this thesis is to investigate *which* factors that influence the entry mode choice, as well as *how* they influence. This section introduces propositions that address the research question. The *which* part is approached by extracting the most relevant factors from each theory. The *how* part is approached by discussing the extracted factors in light of the theoretical perspectives, as well as the presented characteristics of SMEs and emerging markets, to deduce propositions.

2.5.1   Extraction of factors

Within transaction cost theory, most scholars examining influences on the entry mode decision base their propositions upon the three dimensions of transactions mentioned in 2.4.2; environmental uncertainty, behavioural uncertainty and asset specificity. However, in their meta-analysis of transaction cost studies, Zhao et al. (2004) found that behavioural uncertainty tends to be indirectly measured either through the extent of cultural differences between the firm's home country and the host country, as well as the firm's level of international experience. Hence the relevant factors that may be drawn from TCT are environmental uncertainty, cultural differences, international experience and asset specificity.

As previously mentioned, the SME's previous experience is the most relevant mode influence which is rooted in resource-based theories; both international experience as well as previous mode experience. In addition RBT researchers suggest that country-specific experience will

enhance firms' capabilities to compete in a particular market. While the general RBTs literature contains numerous more factors, this research mainly focuses on MNEs and their choice between different types of foreign direct investment. Most of these factors are thus of lower relevance to SMEs, and to this study. Relevant factors from RBTs are accordingly international experience, country-specific experience and mode experience.

Within economic institutional theory, the most commonly examined factor is the level of formal institutional risk. Formal institutional risk is the level of risk that arises due to inefficient market-supporting institutions. It is thus important to separate between environmental uncertainty, which is macro-risk caused by volatility and instability in the environment, and formal institutional risk, which is essentially risk related to contractual exchange. Institutional sociologists emphasize how pressures along the three institutional pillars – regulatory, cognitive and normative – influence the entry mode choice. Firstly, regulatory pressures cause forces of isomorphism that the entrant must conform to in order to establish the right to do business. Second, cognitive limitations of decision makers cause mode experience to be important. Third, cultural differences and country-specific experience influence the difficulty of attaining social legitimacy. The relevant factors that may be drawn from IT are thus formal institutional risk, cultural differences, regulatory pressures and mode experience.

Hence, when applying TCT, RBTs and IT as a theoretical base, the factors that may be proposed to influence SMEs' entry mode in emerging markets are *environmental uncertainty*, *cultural differences, international experience*, *country-specific experience*, *asset specificity, mode experience, regulatory pressures* and *formal institutional risk*. Cultural difference is viewed as a relevant factor within both TCT and as well as sociological IT; international experience may be discussed in light of both TCT and RBTs; and country-specific experience as well as mode experience is perceived as important within both RBTs and the sociological stream of IT.

2.5.2 Environmental uncertainty

While advanced economies have reached a fairly mature state of development and the macro-economic environment is relatively stable, emerging markets often suffer from considerable environmental uncertainty. As discussed in 2.2.2, political and economic instability often prevail. Furthermore, during the evolvement of the institutional context, rules and regulations may suddenly change, forcing firms to alter their strategies and practices. Transaction cost theorists (Anderson & Gatignon, 1986; Williamson, 1985) suggest that under such circumstances, managers, suffering from bounded rationality, will have greater difficulties in predicting future events. According to Brouthers and Hennart (2007), research on MNEs has shown that environmental uncertainty consequently leads to a decrease in ownership level and commitment. Unstable environments increase the risk of doing business, leading firms to prefer lower commitment modes, as these provide the firm with lower switching costs and more flexibility. This thesis expects this to be valid also for SMEs. Due to a smaller resource base, SMEs may not the same capability as larger firms to absorb losses in a host country (Erramilli & D'Souza, 1995). Consequently, it becomes even more important to maintain

flexibility as well as the option to exit the market, should unfavourable changes in the environment occur. The external control is beyond the control of a small firm, and Anderson and Gatignon (1986) suggest that by lowering the commitment, the risk is shifted to outsiders. Still, the results are mixed within SME research examining the relationship between environmental uncertainty and entry mode. While Brouthers and Nakos (2004) as well as Brouthers et al. (1996) found that SMEs experiencing uncertainty preferred low commitment modes, Nakos and Brouthers (2002) found no significant relationship. Nonetheless, Nakos and Brouthers (2002) note that their results contradict previous research, and request more study in the area. Based on theoretical considerations as well as the limited empirical evidence, this thesis suggests that SMEs' best response to environmental uncertainty in emerging markets may be to avoid taking on too much risk and maintain flexibility:

Proposition 1: *SMEs entering emerging markets where environmental uncertainty is high due to economic and political instability, as well as on-going institutional evolvement, will prefer lower commitment modes, as these provide the firm with flexibility and exit options.*

2.5.3 Cultural differences

Cultural difference refers to the difference in cultures and norms between a firm's home country and the host country it seeks to enter. As outlined in 2.2, advanced economies are mainly located in the Western part of the world, whereas many emerging markets are located in the Middle East, South East Asia and South America. Hence, firms from developed countries often face large cultural differences when entering emerging markets. Moreover, as emerging markets often suffer from underdeveloped formal institutions 2.2.2, informal institutions become ever more important. Accordingly, cultural difference may become an important influence to consider when deciding on entry mode. Indeed, Kogut and Singh (1988) find that cultural difference plays an important part in explaining entry mode choice.

From a transaction cost perspective, Anderson and Gatignon (1986) argue that cultural differences increase behavioural uncertainty, as it becomes more difficult to predict how foreign actors might behave. Still, the TCT literature is unclear regarding the best response to this uncertainty. According to Anderson and Gatignon (1986), some authors have found that firms tend to reduce their control as cultural distance increase, while others suggest that firms react to cultural distance by not trusting local actors, and therefore imposing their own operating methods through increased control. Anderson and Gatignon (1986) address this dilemma by suggesting that high control levels are more efficient when there in given host country culture exists substantial gains from doing business in the ways of the foreign entrant; otherwise low control should be preferred. However, social institutional theorists (DiMaggio & Powell, 1983; Yiu & Makino, 2002) argue that in order for a firm to achieve success in a host country, attaining social legitimacy in the local environment is vital. Hence, when entering an institutional environment with different cultures and norms, firms must accommodate social expectations (Yiu & Makino, 2002). Small firms, having limited bargaining power, may thus be left with no choice other than conform to local cultures and customs. Consequently, the overall influence of cultural differences, when considering the

combined effect of TCT and IT, become that SMEs are more likely to adopt low control modes when entering culturally distant countries.

Still, when cultural differences are high, social legitimacy is not easily obtained (Yiu & Makino, 2002). Ionascu et al. (2004) argue that while rules and regulations may be relatively easily understood, comprehending the nuances of the normative environment is considerably more difficult. This challenge may be overcome by entering with a local partner which is already socially legitimate in the host country (Yiu & Makino, 2002). Additionally, Ionascu et al. (2004) suggest that through a local partner, firms may increase their knowledge of cultures and norms, thus making legitimacy easier to achieve. Accordingly, this thesis proposes the following:

Proposition 2: *SMEs entering emerging markets which are culturally distant are more likely to adopt low control modes. Moreover, the need for a local partner or intermediary will increase.*

2.5.4 International experience

As discussed in the previous paragraph, cultural differences are often high in emerging markets. Consequently, it becomes more challenging for foreign entrants to predict the behaviour of individuals in emerging markets, which according to transaction cost theorists (Brouthers & Nakos, 2004; Williamson, 1985) give rise to behavioural uncertainty. This increases the risk of being exposed to opportunistic behaviour, such as cheating, shirking of responsibility, distortion of information, and other forms of dishonest behaviour (Williamson, 1985). Firms entering emerging markets thus need control mechanisms to prevent opportunism (Anderson & Gatignon, 1986), and which control mechanisms a foreign entrant adopts is, according to TCT, dependent on the firm's international experience. Brouthers and Nakos (2004) state that control mechanisms may be obtained in one of two ways; either through internal control through internalization of the activities, or by shifting control to an external party such as a foreign agent. The former, however, requires that the capabilities to control a foreign operation are in place, and these skills take time to develop (Anderson & Gatignon, 1986). International experience is needed in order to learn how to control operations in a foreign country (Brouthers & Nakos, 2004), as this allows them to develop systems and processes for controlling subsidiaries abroad (Delios & Beamish, 1999). Firms that lack these control mechanisms may be better off shifting responsibility for controlling the operation to a resident in the foreign market (Brouthers & Nakos, 2004), and thus defer from entry through equity modes. In addition, Anderson and Gatignon (1986) argue that inexperienced firms are overly risk averse, and content to let an external party be in charge of the foreign activities, whereas experienced firms are more confident and desirous of control (Anderson & Gatignon, 1986).

Within this line of reasoning, Nakos and Brouthers (2004) argue that international experience is an especially influencing factor for SMEs, as they generally have limited managerial capacity and often rely on the management ability of one or two entrepreneurs. Thus they may not be able to extend their control structures and send their own people to a foreign

country for an extended period of time. In addition, Nakos and Brouthers (2004) suggest that SMEs are generally less experienced in international operations. Accordingly, they most likely do not have well-developed systems for managing foreign operations. This may be one of the reasons why Coviello and McAuley (1999), in their review of the SME internationalization research, found that smaller firms tend to rely on exporting.

Also RBTs emphasize the importance of international experience, as this provides learning effects which may allow SMEs to enter through higher commitment modes. Emerging markets often have weak market-supporting institutions, and Schwens et al. (2011) suggest that in such challenging contexts, SMEs experienced in doing business in foreign cultures may have learned how to handle difficult institutional environments, and as a consequence increase their resource commitment. This view coincides with what has historically been the most influential perspective on SMEs' internationalization, namely the establishment chain (stage) models (Coviello & McAuley, 1999), among which the internationalization theory of Johanson and Vahlne (1977) has been the most influential (Coviello & McAuley, 1999). Internationalization theory suggests that resource commitment, and thus entry mode choice, is a function of experiential knowledge of foreign markets (Burgel & Murray, 2000). Hence a company venturing abroad for the first time will gain initial experience through simple exporting (Burgel & Murray, 2000). Over time, as firms become more internationally experienced, they will gradually increase their commitment and enter through more complex and resource-intensive modes (Burgel & Murray, 2000). Hence, based on the argumentation of both RBTs and TCT, this thesis poses the following proposition:

Proposition 3: *When entering the challenging context of emerging markets, SMEs with a low degree of international experience will prefer lower commitment modes.*

2.5.5 Country-specific experience

The aforementioned general international experience, however, may be of lower value when entering the challenging and peculiar contexts of emerging markets. In developed economies, markets are usually transparent and efficient, with clearly defined regulatory institutions; hence Li and Meyer (2009) suggest that international experience may be relevant across contexts. In contrast, emerging markets are often highly idiosyncratic in their institutional arrangements. Thus international experience from other markets may not be transferrable to the new context. Likewise, even if a firm has previous experience in emerging markets, these countries differ significantly in terms of economic and institutional development (2.2.2); thus even this type of experience may not be sufficient. Additionally, several authors (Peng, 2003; Peng et al., 2008; Wright et al., 2005) argue that in emerging markets where legal institutions are weak, firms may need to rely more on networks and relationships, which are host country-specific. Accordingly, several RBT scholars (Chang & Rosenzweig, 2001; Li & Meyer, 2009) stress the importance of country-specific experience (CSE) in emerging markets. Li and Meyer (2009) argue that CSE leads to a competence building effect. The rationale behind this effect is similar to that of stage models; Li and Meyer (2009) suggest that as firms gain experience from prior investments in a particular country, they develop knowledge about local business conditions as well as capabilities to compete in that market.

Moreover, firms with CSE may have built previous relationships with important actors, which may ease the management of foreign operations and decrease risk. Thus, it is likely that the propensity to commit resources will be higher for firms that possess CSE. As SMEs are argued gradually to increase their commitment when they gain confidence and knowledge of new markets, this thesis suggests that the effect of CSE will also be highly relevant to SMEs. Consequently, this thesis proposes that also SMEs will enter through higher commitment modes when CSE increases.

As previously mentioned, theorists within RBTs argue for the importance of CSE, as it provides the entrant with context-specific resources such as knowledge and capabilities related to that particular market. This importance of CSE is supported by institutional sociologists. Yiu and Makino (2002) state that in order to conform to the institutional environment and thereby gain legitimacy, firms need knowledge about and skills for dealing with governmental authorities, as well as an understanding of the social expectations in the normative host environment. Without these context-specific resources and capabilities, foreign entrants will suffer from a disadvantage compared to local firms. Nevertheless, several authors (Meyer et al., 2009; Yiu & Makino, 2002) suggest that firms may gain access to such context-specific resources, and thereby mitigate the liability of foreignness, by leveraging on incumbents in the host country and enter with a local partner or intermediary. Based on the arguments within both RBTs and IT regarding context-specific resources, this thesis proposes the following:

Proposition 4: *Due to the need for context-specific resources in emerging markets, SMEs with a low degree of country-specific experience are more likely to enter through lower commitment modes. Furthermore, lack of country specific experience will lead to increased need for a local partner or intermediary possessing context-specific resources. Also, the influence of country-specific experience is likely to be greater than that of general international experience.*

2.5.6 Asset specificity

Asset specificity is concerned with the extent to which physical and human resources are tailored to a specific relationship (Zhao et al., 2004), and thus may lose value in another use (Brouthers & Nakos, 2004). Consequently, a high degree of asset specificity "locks" the exchange parties into an interdependent relationship. Anderson and Gatignon (1986) suggest that asset specificity increases for instance when products or services are of a proprietary nature, or if a close and active working relationship is required between the firm and a contractee. Transaction cost theorists (Anderson & Gatignon, 1986; Brouthers & Nakos, 2004; Zhao et al., 2004) suggest that when asset specificity is low, for instance if the investment involves use of generally available knowledge, firms will incur relatively few costs in protecting their know-how from competitors (Brouthers & Nakos, 2004), as it is readily available on the market. On the other hand, a firm that possesses unique technology and know-how needs to take additional precautions to protect its assets (Brouthers & Nakos, 2004) and safeguard against opportunistic behaviour (Delios & Beamish, 1999). Should the other party behave opportunistically, it will be costly for the firm to withdraw from the

relationship, as the assets subject to exchange will have lower value when redeployed. Moreover, if the products or services of the firm are require extensive training, switching costs may be very high. Anderson and Gatignon (1986) therefore suggest that when asset specificity is high, the costs of monitoring, negotiating and contracting transactions are likely to exceed internalization costs. This view is according to Brouthers and Hennart (2007) is supported by several scholars within past MNE research.

As some scholars suggest that SMEs often rely on innovative products and services (Brouthers & Nakos, 2004), asset specificity may to play an important role also for small firms. Indeed, there is some empirical evidence that asset specificity may lead to higher control entry modes also for SMEs. For example, Brouthers and Nakos (2004) found that SMEs tend to prefer equity over non-equity modes of entry when asset specificity is high. What it more, asset specificity may be particularly relevant when probing into emerging markets. These countries often lack property rights protection, which increases the need to safeguard differentiated know-how through internalization. Furthermore, as information systems are weak, identifying a new potential partner may be more challenging and resource-consuming than in the more transparent markets of developed economies. Thus, asset specificity is likely to be a relevant factor regarding the entry mode choice of SMEs in emerging markets, influencing the need for control. Accordingly, this thesis proposes the following:

Proposition 5*: SMEs entering emerging markets will tend to prefer higher control modes when asset specificity is high.*

2.5.7   Mode experience

As emerging markets are challenging in nature and highly heterogeneous (2.2.2), entry to an emerging market may require the firm to develop new capabilities regarding how to deal with the unfamiliar institutional climate. Moreover, an entry mode that is suitable in advanced economies with free markets and well-developed market-supporting institutions may not necessarily be the best option in the context of emerging markets. Still, institutional sociologists (Xia, Boal, & Delios, 2009; Yiu & Makino, 2002) argue that entry mode decisions are influenced by past behaviour. Xia et al. (2009) suggest that previous entry mode experience gives rise to an inertia-effect, whereby certain actions have become routine. This view shared by Yiu and Makino (2002), who state that entry mode decisions are limited by the cognitive mind-set of organizational decision makers. Over time, certain judgements regarding entry mode choices become institutionalized and achieve a taken-for-granted status. According to Yiu and Makino (2002) this leads to decision makers becoming unaware of the full range of entry mode options, and favouring those with high cognitive legitimacy. The result is *internal mimicry*; firms repeat what they have been doing in the past (Yiu & Makino, 2002). This study argues that the concept of internal mimicry is relevant to SMEs. With limited managerial capacity, the collective cognitive mind-set is likely to be more constrained. In addition, many small technology firms may emphasize technological efforts more than managerial efforts (Crick & Jones, 2000), making it easier to choose entry mode based on past history of what was perceived as successful.

Also RBT scholars emphasizing the impact of organizational capabilities argue for the replication of past choices. Chang and Rosenzweig (2001) suggest that firms apply learning from prior mode experience in similar choices, as this is perceived to reduce risk. These researchers also found empirical support among MNEs for such a path dependency effect; previous experience with a particular entry mode increases the likelihood that the MNE will choose the same mode in subsequent entries. This study suggests that the capability-effect of mode experience may be particularly important for SMEs; as their resource limitations may prevent the development of an extensive set of capabilities, they may find it less challenging to enter though modes with which they are familiar. Indeed, in Burgel and Murray's (2000) study of small companies, the strongest predictor of entry mode choice was found to be experience with prior sales modes. Furthermore, Burgel and Murray (2000) suggest that as many SMEs have limited experience with foreign activities compared to that of MNEs, it may be beneficial for them to apply capabilities related to domestic sales modes. For instance, Burgel and Murray (2000) found that small firms who have used third party distributors for their products domestically are more likely to export through intermediaries, as opposed to direct export, when venturing abroad. Nevertheless, whether the experience stems from international or domestic sales modes, SMEs will have developed experiences and routines which are embedded in the organization (Burgel & Murray, 2000), and can leverage these capabilities when entering emerging markets. Thus the combined contributions for IT and RBTs lead to the following proposition for this thesis:

Proposition 6: *SMEs that have either domestic or foreign market experience relevant to one type of entry mode will have a higher propensity to choose that mode when entering emerging markets.*

2.5.8 Regulatory pressures

A firm entering an emerging market becomes embedded in the host country's regulatory environment. Although emerging markets have engaged in economic liberalization and are moving towards a market-based system (2.2), many of these countries still have more restrictive regulations of the markets than developed economies. Hence, according to the sociological stream of institutional theory, foreign firms face increased pressures for coercive isomorphism in emerging markets. Additionally, in many of these countries foreign entrants face discriminative institutional pressures from government authorities compared to indigenous organizations (2.2.2); hence, according to Yiu and Makino (2002), the foremost concern for a foreign firm entering such a market is to gain legitimacy in the host country, and thereby establish the right to do business in that market. Yiu and Makino (2002) state that the entry mode choice reflects how an entrant conforms to the regulatory domain. Consequently, regulatory pressures become an important influence on a firm's entry mode choice. Xia et al. (2009) share this view, and argue that entry mode choice in emerging markets are usually a "constrained choice", rather than a "free choice" as most research based on free-market economies suggests. Although the research of the aforementioned scholars is based on MNEs, their arguments may be particularly valid for SMEs. Compared to large multinational firms, SMEs may have less bargaining power towards governmental

authorities. Accordingly, they are under even more pressure to conform to the regulatory environment. Still, the institutional domain differs across emerging markets, thus exactly how the entry mode choice is influenced is likely to be dependent on the host country in question. This thesis thus proposes the following:

Proposition 7: *If SMEs face pressures for coercive isomorphism and discriminative policies when entering emerging markets, the entry mode choice is likely be influenced by regulatory pressures in the host country due to a need for legitimacy.*

2.5.9   Formal institutional risk

In advanced economies, formal institutions that facilitate and protect business activities have often achieved a "taken-for-granted" status (Peng et al., 2009). In emerging markets, however, firms face increased risk of opportunistic behaviour and dissemination of knowledge due to institutional inefficiency (Hoskisson et al., 2000; Meyer & Peng, 2005). One of the most prominent challenges is the lack of well-defined property rights (Meyer, 2001). Moreover, even though laws that protect intellectual property exist, inefficient legal systems may prohibit enforcement of these laws, or make the judicial process painfully slow. Hence, underdeveloped institutional environments in emerging markets often lead to a weak legal protection of a firm's intellectual property. Firms conducting transactions in the market thus face increased risk of private expropriation by another party (Delios & Henisz, 2000). These hazards arise as the nature of contracts necessary will be incomplete (Williamson, 1985), as they cannot protect firms from all possible contingencies. Accordingly, several researchers who have studied MNEs' entry mode choice suggest that when legal protection is weak, safeguarding of vital assets is only possible through internalization of foreign activities.

For MNEs, typical expropriation hazards include technology leakage and free-riding on the MNEs' brand name or reputation. Nonetheless, while brand name and reputation often form an important basis for large firms' competitive advantage, smaller firms entering foreign markets have usually not established a well-known name. Thus for SMEs, proprietary technology and know-how are the resources that are most likely to be exposed to dissemination. As SMEs are known for targeting niche markets with knowledge intensive and specialized products (Nakos & Brouthers, 2002), they often derive their competitive advantage from innovative technology. Hence, safeguarding this knowledge from infringement by local actors is of vital importance. Indeed, Schwens et al. (2011) argue that for SMEs knowledge protection often determines firm survival in foreign contexts. Thus this thesis suggests that in emerging markets with weak legal protection, the best option for knowledge-intensive SMEs may be to internalize their activities through a high control mode.

Proposition 8: *When SMEs competing on the bases of proprietary knowledge enter emerging markets with high institutional risk, they are more likely to enter through high control modes.*

2.5.10 Summary of proposed influences

Figure 2 provides an overview over the factors that are proposed to influence SMEs' entry mode choice in emerging markets. These factors are expected to influence the entry mode choice by determining the desired position of control, resource commitment, risk and flexibility (Figure 1), as well as the need for a partner.
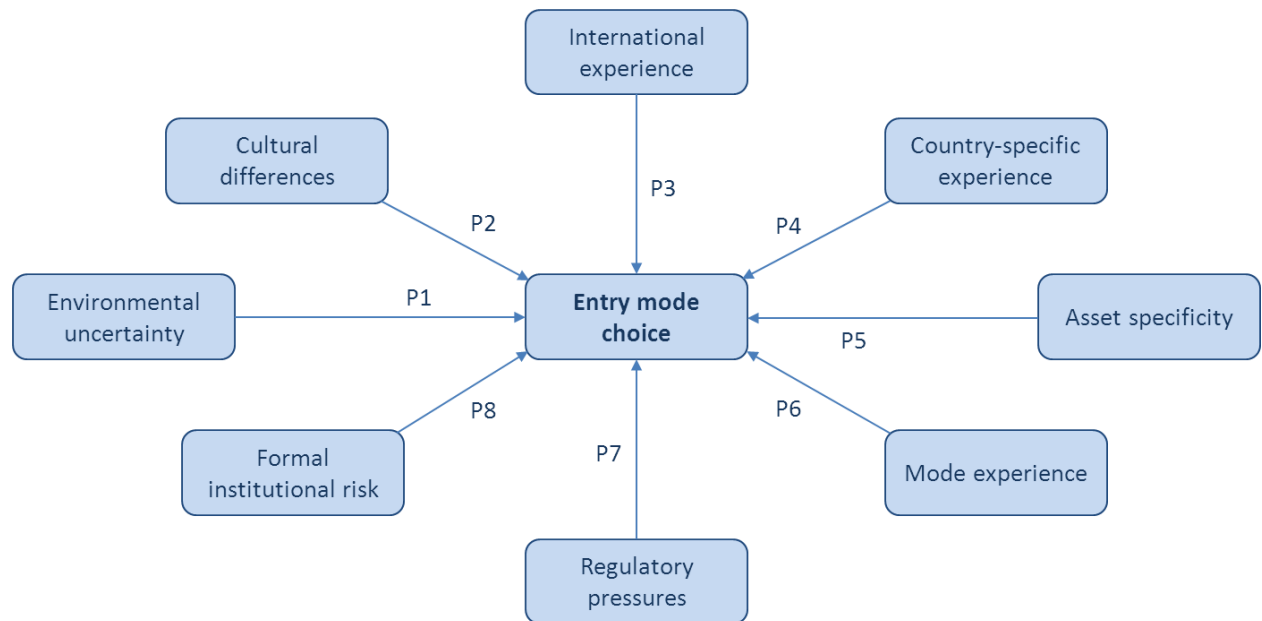

Figure 2: Factors influencing SMEs' entry mode in emerging markets

3 Methodology

The objective of this paper is to explore factors that influence SMEs' entry mode decision in emerging markets. Literature regarding SMEs' entry mode choice is limited, and even more so when it comes to entry into emerging markets in particular. This thesis seeks to broaden the field by studying SMEs' entry into one specific emerging market; namely Brazil. Four Norwegian technology-based SMEs are studied. These firms plan to enter the Brazilian oil and gas market for the first time, and are all part of Innovation Norway's Navigator-programme; a programme which supports small companies in their entry into this new foreign market.

While most scholars (Brouthers et al., 1996; Brouthers & Nakos, 2004; Nakos & Brouthers, 2002; Schwens et al., 2011) investigating SMEs' entry mode choice take a quantitative approach, this study applies qualitative methods. Quantitative research often isolates variables from the context, whereas qualitative methods are more context sensitive (Yin, 2009), which is valuable when the objective is to examine entries into the particular context of emerging markets. The research process has followed a structure in line with the suggestions of Yin (2009), and entails choice of research method and design, selection of cases, collection of data, and the construction of an analytic strategy to interpret the findings. This chapter presents the methods and approaches selected, as well as an evaluation of the research method and process.

3.1 Research method and design

Based on Yin's (2009) criteria for choice of research method, a case study is the method chosen for this study. According to Yin (2009) a case study is preferable when the study (1) seeks to explain how or why something occurs, (2) requires no control over behavioural events, and (3) focuses on contemporary events. This paper seeks to explain how, including why, certain factors have an impact on the entry mode choice in emerging markets. Furthermore, the behaviour of the firms investigated in this study cannot be systematically manipulated by the researcher. Also, the research will take place *during* the entry mode choice process, which allows for interviewing of the persons involved as well as direct observation of events. Hence, all three criteria for selecting a case study are fulfilled. Moreover, this study attempts to provide an in-depth understanding of the entry mode choice, a decision which cannot be separated from the context in which it takes place. This lack of clear boundaries between the event itself and the conditions it is surrounded by also promotes the use of a case study (Yin, 2009).

The research design will be a multiple-case study; that is, more than one firm will be included. Nevertheless, the unit of analysis will be the entry mode choice, as opposed to the firm itself. The rationale for adopting a multiple-case approach is that it increases the robustness of the overall study (Yin, 2009). Yin (2009) argues that a single-case design is justifiable under certain conditions, for instance when a case represents a rare or unique circumstance or is revelatory; nevertheless, none of these criteria could be satisfied in this

study. The important benefit of multiple-case studies is that they enable replication of results, which according to Yin (2009) strengthens the external validity of the study.

3.2 Selection of cases

The cases in this study were to be selected among the firms that participate in Innovation Norway's current Navigator-programme. The programme has seven participants; however, only a subset of four companies was chosen to be the subject of this study. The rationale behind this decision is that analyzing all seven companies would be too complex, both due to time and resource constraints. The selection occurred after the author of this study was present at a Navigator-seminar in January, 2012. At this seminar, all participant firms presented themselves as well as their outlook on the Brazil entry. It was evident that the various firms were in different stages of the entry process; some had more detailed thoughts regarding the entry than others. In order for the case companies to be able to provide as much insight into the entry mode decision as possible, case selection was executed by choosing the firms that appeared to have progressed the furthest in their entry mode process, and which consequently was believed to contribute to the most detailed understanding of the main research question in this study. Four firms were selected: Petrell AS, SafeClean AS, Sperre AS and Norske Ventiler AS. All case companies are SMEs specialized within technology, and of approximately the same size.

3.3 Data collection

Yin (2009) suggests that a major strength of case study data collection is the opportunity to use multiple sources of evidence. This enables data triangulation, which involves converging lines of inquiry and increases the validity of the study (Yin, 2009). The data for this study has thus been collected through three qualitative sources – interviews, direct observation and documents –, with interviews being the most important. According to Yin (2009), interviews are considered one of the most essential sources of case study evidence; in contrast to passive observation, interviews allow for the pursuit of information that is directly relevant to the study. The four case firms were interviewed between the 8th of March and the 16th of April, 2012. The respondents were managers and employees who are directly involved in the Brazil entry and the Navigator-programme. Three of the SMEs (SafeClean, Sperre and Norske Ventiler) were also case companies for another master thesis; hence these interviews were conducted together with fellow students, with the intention of obtaining relevant answers to both theses. Due to personal reasons, the author of this thesis was prevented from attending the interview with Norske Ventiler, and instead received a transcript of the interview.

As the interviews were intended to be open, while at the same time touch upon pre-defined categories, the approach of semi-structured interviews was chosen. An interview guide was prepared with a list of topics and guided questions (see appendix 1). The main objectives of the interviews were to (1) disclose which entry mode the firms had chosen, or were considering, (2) examine the extent to which, as well as how, the predetermined factors outlined in the conceptual background influenced this choice, and (3) investigate whether there were other aspects which had an impact. The questions and topics were thus arranged so

that the research question was addressed in two ways. Firstly, some of the questions were more open-ended regarding what the interviewees themselves perceived to be the most influencing aspects to the entry mode choice. Second, other questions were formulated so that they were related to the proposed influences. Leading questions were avoided, and the objective was to provide the interviewee with leeway when responding. The aim was not to follow the interview guide in a strict manner; the questions did not have to follow the scheduled order, not all questions needed necessarily to be asked, and additional questions were allowed to be asked in order to follow up on interesting points. A the interviews were to cover two theses, the interview guide was more comprehensive than if it were to be relevant only to this study. The interview during which the author of this thesis was absent followed the same interview guide as the others. All interviews were conducted in Norwegian. Companies positioned in Trondheim were visited in their offices, while interviews with companies located elsewhere were conducted via Skype-calls at scheduled times. Following permission from the respondents, all interviews were recorded and subsequently transcribed.

In addition to interviews, direct observation was used as a source of evidence. The Navigator-programme in which the case companies are participating consists of six seminars. As the third of these seminars was held in Trondheim during the 24th and 25th of January, permission was granted for the author to be present. This allowed for observation of the case companies in a natural setting in which the entry mode decision was discussed. The fellow students who also studied companies in the Navigator-programme in their thesis were present as well. This use of multiple observers increases the reliability of the observational evidence (Yin, 2009). The seminar mainly consisted of presentations relevant to the firms' Brazil entries and discussions among the participants. In addition, each participant company had meetings with consultants from Innovation Norway, during which they discussed, among other issues, the possibilities of various entry modes.

Third, several sources of documentary information were reviewed in order to learn as much as possible about the case companies, both to prepare for the interview, as well as to supplement and corroborate the data collected in the interviews. The companies' websites were visited to gain insights into their products and services, markets and focus areas. In addition, the companies' profiles on *proff.no* were used to gather information regarding turnover and profits. Access was also granted to confidential documents the companies had prepared in connection to the Navigator-programme. All participant companies had composed a situation report and a business plan regarding their Brazil entry, which included, among other things, information about products and services, clients and international presence, as well as plans regarding the entry. In addition to the aforementioned documentation related to the companies, documents concerned with Brazil as a market were also reviewed. This was to understand better the arguments put forward by respondents in the interviews, as well as to corroborate their statements regarding Brazil as a host country. In addition, all the Power-point presentations held at the Navigator-seminar in January were received, including presentations about export financing, cultural differences, as well as a presentation held by another company regarding their experiences with entering Brazil.

3.4   Analysis

As in most qualitative case studies, the data collection ended in a relatively large amount of unsorted written evidence: transcribed interviews, notes from direct observations, power point presentations and documentary information. As case studies do not have any fixed formula for guiding the analysis of evidence, Yin (2009) advocates the need for an analytic strategy. At the outset the strategy chosen was reliance on theoretical propositions, whereby the propositions developed would provide guidance in the sorting of data. However, the interviews with the case firms revealed that other aspects than those covered by the propositions were highly relevant, thus a reliance on prior expectations would not cover the extent of the findings. As a result, an approach based on grounded theory was chosen to analyze the interviews; a strategy which applies the tool of coding to create higher abstraction-level categories (Bryman, 2008). The transcripts were coded into labels containing similar arguments, before these labels were compared and arranged into categories containing similar labels. The categories represented the influences to the entry mode choice, and captured issues which would have been missed if coding merely were to be guided by preconceived factors. Although not all respondent firms addressed each category, this sorting made it easier to compare the various companies' replies regarding each influence, or lack thereof. Since the same interview guide was used for all firms, the data provided a good basis for comparison of results. Still, the interview guide was not strictly followed in each interview, causing some respondents to provide more limited responses regarding some of the influences. The replies were then compared to find recurring patterns or deviating replies. In this case, this applied to the entry modes the firms preferred, and whether or how the same aspects influenced their entry mode choice. Measures were taken to attempt explaining why some replies deviated from others. The results were then discussed in consideration of the conceptual background in two ways; (1) the influences found in the data collection were compared and discussed in light of the propositions, and (2) the influences and origins of these were evaluated to see which theoretical perspectives offered greater explanatory power regarding the entry mode choice. During the discussion of the propositions, the analytic technique of pattern-matching was applied; this compares an empirically based pattern with a predicted one (Yin, 2009). If patterns coincide, this will, according to Yin, help strengthen the internal validity of a case study. Empirical aspects not covered by the pattern-matching were captured either in the evaluation of the theories, or in the discussion of implications for managers and policy makers in 7.2 and 7.3.

3.5   Evaluation of the research method and process

While the research method applied in this thesis is a case study, Bryman (2008) suggest that there are several other research methods that may be applied in qualitative research. As this study follows SMEs involved in the Navigator-programme, and that are currently involved in an on-going decision process regarding entry mode, a natural alternative would be the choice of a longitudinal design. Nevertheless, this method was rejected based on time constraints. Longitudinal studies involve considerable time and resources, and would entail the conducting of several interviews at different points in time. While the Navigator-programme lasts for more than a year, this study takes place within a few months; within this period, the

case companies did not progress far enough in their entry mode process to allow considerable gains to be achieved by conducting interviews on more than one occasion. Moreover, a comparative method was considered inappropriate, as this study does not intend to compare contrasting cases. Lastly, cross-sectional designs, or survey methods, often entail random sampling, which was not the case in this study.

Yin (2009) suggests that there are four tests that may be used to establish the quality of case studies. These are construct validity, internal validity, external validity and reliability. Construct validity is concerned with identifying correct operational measures for the concepts being studied (Yin, 2009). Several actions have been taken to increase the construct validity of this study. Firstly, the case descriptions were reviewed by the interviewees from the case firms. In several instances, the respondents made corrections, something that, according to Yin (2009), enhances the accuracy of the study, and thus increases construct validity. A second tactic used was multiple sources of evidence, which encourage converging lines of inquiry (Yin, 2009). Yin (2009) states that when data are triangulated from several sources, construct validity increases. In addition, the overall quality of the study becomes higher relative to those relying on only one source of evidence. The execution of interviews in Norwegian may pose a threat to the construct validity, as there is a risk of misinterpretation when translating the transcripts. Yet this risk is perceived as low due to the respondents' validation of the case descriptions, which were in English.

A case study has high internal validity when casual, as opposed to spurious, relationships are established, whereby certain conditions are believed to lead to other conditions (Yin, 2009). In this study, one of the objectives of developing propositions was to facilitate pattern matching, which Yin (2009) suggests may strengthen the validity of a study; if patterns coincide, then internal validity is increased. However, as mentioned in 3.4, the analysis also incorporated elements from grounded theory. Yin (2009) argues that internal validity is mainly a concern for explanatory studies, whereas grounded theory is more exploratory in nature. Hence, the concept of internal validity may not fully apply to this thesis.

The third test, external validity, deals with the problem of knowing whether a study's findings may be generalized beyond the immediate case study (Yin, 2009). This leads to an aspect of this study which is important to emphasize, namely the *domain* to which it may be generalized. Yin (2009) states that while quantitative research relies on *statistical generalization*, where the respondents are considered a sample used to draw inferences about a whole population, case studies rely on *analytical generalization*, where a particular set of results are generalized to some broader theory. The four SMEs in this study cannot be viewed as a representative sample of the whole population of SMEs. In accordance with case study methodology, the objective is not to draw conclusions regarding SMEs in general; rather, the objective is to make theoretical inferences. Otherwise, another research method would be better suited. Thus the entry mode theories constitute the domain in which the results may be generalized. The degree to which the results may be generalized, and thus external validity, increases through *replication*. For instance, if the findings from one case firm lead to a conclusion regarding factors influencing the entry mode choice and the applicability of

theoretical perspectives, then this result should be replicated by doing the same "experiment" with another firm. Thus the logic behind the choice of a *multiple-case* study is not sampling, but replication. If the influences of the entry mode choices of *several* firms suggest that one theoretical perspective is particularly suited to explain the entry mode choice, then the findings may be generalized within that theoretical domain. However, regarding external validity, there are some weaknesses to this study. Yin (2009) argues that in order to achieve full replication, each case must be carefully selected so that they either predict similar results (literal replication), or contradictory results, but for reasons that are anticipatable (theoretical replications). As discussed in 3.2, the available case firms were limited to the participants of the Navigator-programme. Moreover, upon the selection, the author of this thesis did not possess sufficient information about the participants to foresee whether the case firms satisfied the criteria for replication. Thus the case selection was based rather on which firms were believed to provide the most insight into the entry mode choice. Hence the external validity of the case study may not be as high as desired. Still, Yin (2009) suggests that if two or more cases are shown to support the same theory, then replication may be claimed, and as will be discussed in 6.1.1, the findings suggest that this is indeed the case.

Fourth, and finally, the reliability of a study is important; that is, whether the operations of the study, such as the data collection procedures, can be repeated with the same results (Yin, 2009). In order for reliability to be obtained, the procedures followed need to be documented. As the companies interviewed, the name of the interviewees as well as the interview guide are all revealed in this report, the interviews could be repeated relatively easily, and the responses would most likely be the same. Still, an interview guide is only a tentative plan. Thus another investigator may allocate their attention differently across the questions, and ask other follow-up questions. Accordingly, aspects might be revealed which are not included in this thesis, and vice versa.

4   Case descriptions

This chapter and the next provide a summary of the data collected in this study. While the next chapter is devoted to a more in-depth cross-case analysis of influences to the case companies' entry mode choices, this chapter gives a brief introduction to Brazil, Innovation Norway and the four case companies. First, an overview of Brazil is presented, with emphasis on aspects that are relevant to the entering firms. Second, a brief description of Innovation Norway and the Navigator-programme is provided. Finally, each case company is presented. The source of these case presentations is primarily the interviews conducted with representatives from the four companies: Geir Langli from Petrell AS, Tommy Ølmhelm and Jon Refsnes from SafeClean AS, Kjell Brunborg from Norske Ventiler AS, and Wenche Haugerud from Sperre AS. Key company information is presented, followed by an overview over the company's market and key customers. The forthcoming entry into Brazil is then described, followed by a summary of what the companies view as the main challenges of entering Brazil.

4.1   Brazil

Brazil is the largest country in South-America, and the fifth largest country in the world. The native language is Portuguese, and less than ten per cent of the population of 200 million speaks English. The capital is Brasilia, though Rio de Janeiro is the most important city in regards to oil and gas (Inventure Management, 2011).

4.1.1   Market overview

Brazil has the world's eighth largest economy, and also one of the fastest growing (Inventure Management, 2011). The driver of Brazil's current economic boom is the discovery of enormous offshore oil reserves, which has created a strong demand for all types of products and services related to the oil and gas industry. In 2011 Brazil was the 11th largest oil producer in the world (The Economist, 05.11.2011), producing an oil output equal to that of Norway (Inventure Management, 2011). By 2020, however, Brazil is forecasted to be among the top five of the world's oil nations (The Economist, 05.11.2011). The main player within Brazilian oil and offshore activities is Petrobras. Petrobras is by far the largest oil producer, with a production of nearly 1.9 million barrels per day (BPD) (Inventure Management, 2011), and the company is expected to continue its strong growth over the next decade. According to Inventure Management (2011), Statoil is to become the second largest producer during 2012, with a planned production of 0.1 BPD.

4.1.2   Challenges of doing business in Brazil

There are several challenges of doing business in Brazil that entering firms must take into account. Important issues are local content demands, a tight labour market, weak market-supporting institutions and cultural differences.

Local content demands
"Everything that can be done in Brazil, shall be done in Brazil"

-former Brazilian president Lula

In the Brazilian oil industry there is increasing political pressure for local content; that is, part of a product utilized must be produced or assembled in Brazil. Companies that operate oil fields in Brazil are by law committed to maintain a certain overall local content level, usually around 60 % (Inventure Management, 2011). The commitment of operators to buy Brazilian is passed on to their suppliers, so that the overall quota is met. Percentage requirements for suppliers vary, depending on their products and services. Some foreign suppliers with unique products and technology may be able to enter Brazil by doing business directly from abroad without local content, at least for some time. The local content policy is meant to stimulate the domestic industry and create a demand pull on the Brazilian economy (The Economist, 05.11.2011). Moreover, the Brazilian government is planning to raise productivity in the rest of the economy by investing oil revenues in education, culture, science and technology, environmental sustainability and poverty eradication (The Economist, 05.11.2011).

A tight labour market

The local content demands have contributed to an extensive tightening of the Brazilian labour market. The policy has not only lead to the creation of numerous new oil- and gas service firms in Brazil (The Economist, 05.11.2011); it is also forcing many international companies to set up operations in Brazil (Inventure Management, 2011; The Economist, 05.11.2011). These effects have caused a great increase in labour demand, while supply remains low. The lack of qualified personnel is in turn pushing up the costs of operating in Brazil (The Economist, 05.11.2011). The salaries of engineers and managers are equal to, or even higher than in Norway. In addition, social benefits levied by the government are high, causing the total cost of an employee to be around twice the gross salary (Inventure Management, 2011). Additionally, Inventure Management (2011) states that labour laws in Brazil are detailed and rigid, and that Brazilians are highly protected by law, making wrongful hiring very costly to a company.

Weak market-supporting institutions

Brazil is ranked as one of the more difficult countries in the world in which to do business; World Bank's 2011 "ease of doing business" index ranks Brazil is number 126 out of 187 economies. A low ranking indicates that regulatory institutions fail to ensure efficient facilitation of business (The World Bank, 2011). Bureaucracy is stifling (Inventure Management, 2012), with extensive procedures related to establishment, labour laws, taxes, reporting and permits. What is more, Inventure Management (2012) states that the legal framework is subject to frequent and unpredictable changes. Weak property protection is another issue. On the Global Property Guide's index of property rights protection, Brazil receives a score of 50 out of 100 (Global Property Guide, 2012b). By comparison, Norway and most other developed economies in Europe have a score of 90 (Global Property Guide, 2012a). The import regime is another aspect that poses challenges to entering firms. According to Inventure Management (2011) the system is rigid and bureaucratic, and import taxes are often so high that they exceed the value of the shipped product. Although some companies may be tempted to conduct bribery to skip bureaucratic procedures, Inventure

Management (2011) suggests that it is perfectly possible to operate in Brazil without engaging in corruption.

Cultural differences

According to Inventure Management (2012), cultural differences are a very common reason for entry failure. As both the Brazilian and Norwegian style of business communication is informal and friendly, they often connect well on a personal level and are able to build relations quickly. However, Inventure Management (2011) argues that this ease of connecting can often become a pitfall, as Norwegians and Brazilians actually have very different mind-sets. For instance, Brazilians need considerably longer time to build trust, which to them is crucial in business relationships. Moreover, in Brazil it is important to have relations on a personal level, not just at business level. These are only two of several aspects that often cause misunderstandings when Norwegians and Brazilians engage in business together. Furthermore, because of the aforementioned cultural traits, Brazilians often require foreign entrants to have a continuous presence in Brazil in order to build relations.

4.1.3 Entry modes in Brazil

Inventure Management (2011) suggests that the main available entry mode options for Norwegian companies are (1) serving the Brazilian market from Norway, (2) selling through a Brazilian agent/representative, and (3) establishing a Brazilian entity. Although the first option is possible, successfully serving the Brazilian market from abroad though direct export is often difficult (Inventure Management, 2011). Firstly, selling in Brazil often requires a continuous physical presence, in order to build relations and trust. Furthermore, Petrobras often demands its suppliers to have a legal representative in Brazil. Many companies thus sell their products or services through a Brazilian agent or representative. This option provides the entrant with access to the agent's network as well as the benefits of the agent's familiarity with regulations, requirements and business practices (Inventure Management, 2011). The disadvantage, however, is that an agent may represent a large number of companies, thus clients face the risk of limited attention. Furthermore, a downside to both direct export and representation is that a company invoicing from outside Brazil must pay up to 25 % extra in taxes (Inventure Management, 2011). This tax increase is avoided by establishing a Brazilian entity. Moreover, due to the need for a continuous presence to maintain relationships, as well as local content demands from both politicians and Petrobras, establishing a company's own operations in Brazil is increasingly becoming a business necessity for foreign entrants. Indeed, according to Inventure Management (2011), the most common entry mode for Norwegian companies in Brazil is to set up a wholly owned subsidiary.

4.2 Innovation Norway

Innovation Norway (IN) is an agency whose aim is to support innovation and development of Norwegian industry and enterprises. Through their in-house competence, advisory services, promotional services and network services, IN seeks to assist Norwegian companies in strengthening their competitive advantage, both in domestic and international markets (Innovation Norway, 2012a). IN is the Norwegian government's official trade representative abroad, and is present in more than 30 countries, including Brazil (Innovation Norway,

2012a). Their local presence worldwide is an important aid in IN's goal to assist Norwegian businesses grow and find new markets.

4.2.1 The Navigator-project

Navigator is a competence programme hosted by Innovation Norway with the objective of providing useful tools for Norwegian SMEs in internationalization, strategy and innovation (Innovation Norway, 2012b). The currently on-going Navigator-programme is focused on how to enter the oil and gas-market in Brazil, and has seven participating SMEs. Navigator consists of six seminars over a period of maximum 16 months. Four of these seminars are held in Norway, and two of them in Brazil, where IN arranges meetings for each participant company with potential customers and partners. In addition, the companies are provided with consultants from IN.

4.3 Petrell AS

4.3.1 Key company information

Petrell AS (Petrell) is a provider of technology within multi-physics simulations. The company was founded in 1988, and was an operative sole proprietorship until 2004. The main activity during the first years was technology development, which resulted in a proprietary Computational Fluid Dynamics (CFD) platform named Brilliant. The Brilliant technology is the core of Petrell's business; simulation of multi-physics processes as well as consultancy services based on such simulations. Founded on the Brilliant platform, Petrell has also developed VessFire, a system created to calculate thermo-mechanical responses of process equipment exposed to very quick/extreme temperature changes, for instance in the case of fire. Petrell sells both VessFire licences as well as analysis services based on VessFire and Brilliant technology; however, the majority of Petrell's revenue stems from development of simulation systems based on client specifications and conducting analyses on behalf of clients. Langli says that their CFD technology, contrary to off-the-shelf CFD systems, is able to do a wider range of calculations and analyses, which makes their technology superior to that of their competitors. As far as Langli knows, there are no others in the market with a technology that can match Petrell's. Brilliant and VessFire are registered trademarks. Still, the technology is not (yet) patented as the company would then have to reveal its methods. Petrell has one office, in Trondheim, Norway, from which the majority of the activity takes place. At the moment they are 17 employees. The sales revenue in 2011 is estimated to be around NOK 13 million (13 MNOK), of which export accounts for approximately 20 %.

4.3.2 Market

Petrell's customers are typically oil companies and engineering companies, but they also have the Petroleum Safety Authority of Norway as well as equipment suppliers, consulting companies and classification companies on their client list. In Brazil the potential clients are oil companies that develop and operate oilfields. Analyses will be the most important market, relative to e.g. sale of software licences.

Petrell exports their products and services to several foreign markets. Indeed, although the largest share of their income is from the Norwegian market, due to several big projects for Norwegian branches of international oil companies as well as Statoil, the majority of Petrell's clients are outside Norway. The company has customers in Asia, Australia, North Africa and South America, as well as in many European countries. Langli argues that the market is large; they are often approached by international companies, and the popularity or Petrell's products and services is increasing. Langli imagines that in a few years Petrell will have a staff of 40-50 people in Norway, as well as some offices abroad, as this could provide them with a closer proximity to the world's large oil metropolises. Nevertheless, at the present time establishing sales offices would be too resource-intensive. Thus for now, most clients are dealt with directly from Trondheim. The relevant analyses are performed at Petrell's office based on data received from the client, and correspondence is usually conducted via telephone or e-mail. Nevertheless, although the majority of the client correspondence is direct, Petrell has agents in two locations: in Abu Dhabi and in Korea. Though this is merely because of laws and regulations in Korea and in The Emirates, the incumbent companies are not allowed to buy directly from abroad. All sales must be conducted via a local agent, forcing exporting companies to hire a local intermediary.

4.3.3 Brazil entry

According to Langli, Petrell had originally chosen not to prioritize Brazil, as it would demand too many resources. When contacted by Innovation Norway, however, Petrell started considering a Brazil entry. Should Petrell decide to enter Brazil, Langli says that the company wishes to continue conducting analyses from their office in Norway, without having to establish a physical presence in Brazil. The main objective is thus to enter through exporting. As there are considerable differences in time and space between Brazil and Norway, and because finding, visiting and following-up clients is resource-demanding, Langli argues that it is challenging to enter through direct export. Petrell therefore considers entering into an agreement with a local agent. The agent's role will be to organize client meetings, conduct intelligence and find prospective projects. Through the Navigator-project, Petrell came in contact with a Rio de Janeiro-based management firm established by Norwegians, Danes and Brazilians, with which they are currently in dialogue regarding an agent agreement. According to Langli, important reasons for their entry mode choice are full access to the agent's network, and that the agent is familiar with the language and culture, as well as rules and regulations. Still, should the choice to export be infeasible due to local content demands, Langli says that the only viable way to enter the market may be to establish a physical presence through a subsidiary. Nonetheless, subsidiary establishment is at the moment considered too resource intensive, and may not be profitable, particularly due to high labour costs in Brazil. Langli states that their preference is to start out "the easy way", and attempt to get an initial foothold in the market before committing any more resources.

4.3.4 Challenges in Brazil

The reason why Petrell did not consider a Brazilian entry at the outset is that the company perceived Brazil as difficult and costly to enter, mainly due to protectionist laws as well as

linguistic and cultural differences. Petrell did not wish to take on more risk than they could handle, and Langli argues that the company did not possess the necessary prerequisites for a safe entry into the Brazilian market. When asked whether they faced any of these difficulties in e.g. The Middle East or other countries in South America, Langli replies that these other countries have English and Spanish as their major languages and traditional roots; hence the cultural differences become less significant and communication is easier. In addition, the clients they export to in other countries often have some form of European or American heritage. Langli states that another major challenge is the high costs of operating in Brazil, especially costs related to employment. In addition, Langli remarks that obtaining professionals is very difficult, and the loyalty of employees is extremely low. Thus labour conditions are one of the reasons why Petrell considers establishment of a subsidiary too challenging and too costly.

According to Langli, Petrell hopes to avoid any demands regarding local content. Langli argues that their services are not particularly labour-intensive, thus the argument of creating local work places is not that important. This view is supported by Brazilian lawyers. Moreover, Langli suggests that as Petrell is almost a monopolist within their business area, Brazilian companies are most likely not in a position to make demands regarding local content, should they require Petrell's services. They hope therefore that this will lead to the company being able to export to Brazil, without having to establish a Brazilian entity.

4.4 SafeClean AS

4.4.1 Key company information

SafeClean AS (SafeClean) is a company specializing in chemical cleaning of offshore-related systems and components, as well as waste sorting of removed coatings. The company originated in 2002, when the company Overflateteknikk was established in Høyanger, Norway. Over the first years, Overflateteknikk delivered cleaning services to local firms; still, to diversify their activities, the company gradually directed their services towards the offshore market, which has now become their sole area of focus. The founders of Overflateteknikk also established the company "Avfallsteknikk", where the main activity was to sort and clean the water used in the chemical cleaning process. In 2010 Overflateteknikk and Avfallsteknikk merged, and the name was changed to SafeClean. Parallel to the establishment of the former two companies, the founders started developing their own chemicals; the most important input in the cleaning process. They established the company "industrial Chemicals" which today is a sister company of SafeClean, and thus SafeClean maintains control over the chemicals used in their activities. The company has its headquarters and processing facilities in Høyanger, Norway.

Today SafeClean has a twofold business. The company has a production line in Høyanger, to which dismantled offshore equipment is sent for removal of coating and scale. According to Refsnes, these cleaning activities make up for around 15-20 % of the total revenue. Second, when the process equipment and systems are larger, SafeClean conducts their services on-site, using the same cleaning technology, by temporarily connecting on to the client's

equipment. All equipment, personnel and materials are then sent out from SafeClean's headquarter in Høyanger. The technology applied in the cleansing process is developed by SafeClean. Although all the technologies are known techniques, it is the way these are combined that provides SafeClean with their good results and thus competitive advantage. Still, Refsnes says that SafeClean has decided not to seek patents on their methods, as this would entail revealing these methods in the application process.

According to Ølmhelm, SafeClean had revenues in 2011 of approximately 48 MNOK, and a profit of around 7 MNOK, while the revenues in 2009 and 2010 were around 30 MNOK. The number of employees has increased steadily over the last years, and the company now employs around 30 people.

4.4.2 Market

SafeClean's main market is operators within the oil and gas industry, both offshore and onshore. All of their income is created in Norway, mainly at the Norwegian Continental Shelf in the North Sea, where the most important customers are Statoil, BP Norway and ConocoPhillips. All clients are dealt with directly by the management at Høyanger. Thus at present, SafeClean has no international sales, and Brazil will be their first foreign market to enter. In Brazil, all oil operators represented in the country are viewed as potential clients. Nevertheless, until now the main focus has been on Petrobras and Statoil.

4.4.3 Brazil entry

Originally SafeClean had not planned to enter Brazil, or to engage in internationalization at all, until Innovation Norway invited them to join the Navigator project. Moreover, Ølmhelm says that even then the company was uncertain whether or not to join the project, as the company still had enough work to complete in the home market. Nonetheless, SafeClean decided to give it a try, with the opportunity to withdraw if desired. During the process, however, the company has become more confident regarding the potential in the Brazilian market, and now wishes to prioritize the time and resources necessary for entry.

Refsnes states that the first and foremost strategy for gaining a foothold in Brazil will be for SafeClean to get in a position to carry out an assignment for one of the operator companies in Brazil, even though SafeClean has not legally established a subsidiary in the country. Hence the company is presently working to undertake a pilot project on a platform in Brazil, where all inputs are being transported from Norway. The objective is then that the potential client will be satisfied to the extent that it may assist SafeClean in their further establishment, and that the client may also have a say in forming SafeClean's entry strategy. Thus according to Ølmhelm, it is still uncertain which entry mode SafeClean will adopt after having completed a potential pilot project. SafeClean has conducted workshops and discussed various scenarios, but a choice is yet to be made. Although the scope has been narrowed down to three possible alternatives; a joint franchise; an agent agreement; or establishing a wholly owned subsidiary, SafeClean has concluded that they still possess too little information and knowledge about the Brazilian market. Consequently, it is too early to make a final decision on entry mode. Additionally, Refsnes remarks that financial risk is an issue; the company

must be certain that gains will be achieved if they are to commit a significant amount of resources. Refsnes expresses that SafeClean cannot afford to fail in Brazil; they need to do things right. Either way, cost structures, future income flows, how to build customer relations and potential sales channels, are all aspects that are part of the consideration process.

4.4.4 Challenges in Brazil

According to Refsnes, a big challenge of entering Brazil is the import regime; everything is highly bureaucratic and rigid compared to how SafeClean operates in Norway, and compared to what companies are familiar with in Europe. If SafeClean wishes to bring inputs to a pilot project from Norway, customs issues are a major barrier. Furthermore, the demand regarding local content is an important point on the agenda. Refsnes declares that if SafeClean is to invest in Brazil, they will do it fully, and stimulate an increase in local content. In Refsnes' opinion, this will provide SafeClean with a competitive advantage in Brazil.

Refsnes further asserts that SafeClean takes the cultural differences between Norway and Brazil very seriously. These differences are definitely a critical factor, and one of the difficulties of entering Brazil. Refsnes says that if SafeClean is to commit to a Brazilian entry, then locals will be running the operations. Nevertheless, in a transition phase the company has considered either to bring down supervisors from their Norwegian office, or to bring Brazilians to Norway and let them join in on projects here. Either way, overcoming cultural differences is a central challenge.

Regarding the political climate in Brazil, Refsnes considers the conditions quite stable, and not a threat to the entry. However, a central problem, and what Refsnes perceives as the greatest hazard in Brazil, is unwanted dissemination of the company's technology and knowledge. Refsnes is definitely more concerned with technology leakage in Brazil than during operations in Norway. Thus Refsnes states that this is a central aspect they need to take into account when deciding on a business model and entry mode.

4.5 Norske Ventiler AS

4.5.1 Key company information

Norske Ventiler AS (NV) is a company that manufactures process valves for the oil and gas industry. While many of the large players in the industry engage in large scale production of valves in standardized materials, NV has specialized in exotic high-end materials and short delivery times. The company was founded in 1987, and is today the only pure process valve producer left in Norway. NV produces two different product categories – top side valves and subsea valves – with subsea having gained increased importance over the last two years.

Over the last years company revenues have stayed around 40 MNOK, with the exception of 2010, which was an unsatisfactory year for most of the oil and gas business. Nevertheless, Brunborg states that the activity level has now increased significantly, and that the outlook is very beneficial. The company's main office and factory is located in Ågotnes near Bergen, Norway, where NV has approximately 23 employees. Additionally, in 2010 the company established an office in Drammen, Norway, with 3 employees. This office focuses solely on

subsea, and the location was strategically chosen due to the proximity to the environment around FMC Subsea in Kongsberg.

4.5.2 Market

The end users of NV's valves are operators within the oil and gas industry, such as Statoil. However, NV's customers are not the end users, but companies that act as intermediaries between the suppliers and the operators. These intermediaries are either large EPC[4] companies such as Aker Solution, Aibel and Reinertsen, which receive large maintenance contracts, or valve-traders who purchase on behalf of EPCs or oil companies.

Brunborg says that around 2005, NV received their first valve request from abroad, more specifically from the US and Canada. According to Brunborg, these first requests were rather arbitrary, and arrived before the company had realized that their products were also highly attractive overseas. Brunborg claims that the company currently sells to the Middle East, all countries with a foothold in the North Sea (Scotland, England and Denmark), Central Europe (Belgium and Holland), Australia, Brazil, the US, Canada and Singapore. Still, although many of their deliveries are meant for companies abroad, in these instances the products are actually sold to Norwegian EPC companies, which sell their valves abroad as part of a larger package. The EPC companies are then also responsible for getting the products through customs and into the country. Although the result is statistically a Norwegian sale, Brunborg states that 35 % of their income originates from sales of products intended for overseas companies. Still, their sales in Brazil today, as well as in several other locations, are not done individually by NV. Nevertheless, the company also exports to several countries without Norwegian EPCs as intermediaries. In these markets, the company's business model varies. In the US and Canada, NV sells their product through agents, and the company is currently establishing a distributor in the Australian market. In addition, NV finds the Far East to be an interesting area, in which they will probably consider initiating business, and should this occur, Brunborg suggests that also this will be through an agent or distributor. Brunborg argues that when selling to countries very distant from Norway, travelling to clients becomes challenging, and the company thus believes in a sales strategy where external representation can provide an extension of the company.

4.5.3 Brazil entry

Brunborg says that as the oil and gas market in Brazil is projected to grow substantially over the next ten years, there is a "great need for everything over there". The company thus perceives the market to hold great potential, and started reviewing the possibility of entering Brazil around one and a half year ago. According to Brunborg, NV then explored possibilities of a dialogue with INTSOK[5] or Innovation Norway, until they came in contact with the Navigator-project. Thus Brunborg states that regardless of the Navigator-project, they would

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[4] EPC companies are companies that are contracted to provide engineering, procurement and construction services (InfoMine, 2012).

[5] INTSOK – Norwegian oil and gas partners – is a network-based organization where partner exchange experience and knowledge of market developments internationally. The organization is actively supported and partly financed by the Norwegian government (INTSOK, 2012)

have done the same as they did in Australia: contact INTSOK or Innovation Norway to ask for support in evaluating the market.

Regarding the entry mode choice, Brunborg replies that NV believes entry through some form of external representation, in terms of an agent or distributor, is the best strategy for the company to gain a foothold in foreign markets. As previously stated, this is the way they have entered US, Canada and Australia, and Brunborg suggests that this may also be the best way to enter in Brazil. Brunborg states that establishing a subsidiary in Brazil is not feasible, as NV is too small a company. An establishment would be too resource-intensive and very risky. According to Brunborg, the alternative to agent representation would be direct export. However, this is considered difficult, and requires relations as a starting point. Brunborg is of the opinion that a foreign entry will become much easier with the communication of information via a local representative.

4.5.4 Challenges in Brazil

In Brunborg's opinion, the biggest challenge in Brazil is the demands regarding local content. Still, Brunborg argues that these demands differ greatly between the topside and subsea market. As there are presently no similar subsea products available in South America, the EPC companies are forced to import regardless of restrictions or costs; hence local content becomes less relevant for NV's subsea valves. Topside valves, on the other hand, may be considered a commodity in Brazil, thus regulations apply to a greater extent. Furthermore, Brunborg is conscious about the cultural differences between Norway and Brazil. Brunborg states that as NV has previously only sold to Brazil via Aker Solutions, the company had no prior knowledge of the Brazilian market, except that they knew the market had potential.

4.6 Sperre AS

4.6.1 Key company information

Sperre AS (Sperre) is a subsea technology specialist company which manufactures and sells electrical subsea remotely operated vehicle (ROV) systems, as well as other subsea technology equipment. The company was founded in 1993 by Tor Olav Sperre. As a diver, he wished to find ways to reach greater depths, and thus built an ROV with which he could explore ship wrecks inaccessible by ordinary diving. This ROV gained interest from outsiders, and Sperre was founded. Initially Sperre was mainly a service-based company performing ROV missions for their clients. Nevertheless, they gradually transformed into a production company, whose main activity today is to produce and sell ROV systems to their clients. The technologies applied in manufacturing ROVs are widely known and used across the world, and hence not proprietary knowledge.

Sperre is located at Notodden, Norway. The company does not have any sales- or production facilities in other locations; hence all company activities are performed from the headquarters, by a staff consisting of approximately 14. The activity level is high, and both revenue and operating profit have increased steadily since 2001. According to Haugerud,

company revenue in 2011 was around 65 MNOK; however, this includes a project which actually took place in 2010.

4.6.2 Market

Sperre has focused on a niche of custom-made ROVs, and makes special purpose ROVs designed and made according to their customers' specific requirements. Most of their competitors are big firms with larger scale line productions for standardized off-the-shelf ROVs. Most of Sperre's clients operates within offshore, the diving industry or fish farming. 80 % of Sperre's market is in Norway, with Statoil, Gas de France and Simon Møkster Shipping being the main reference customers with systems operating in the North Sea. Nevertheless, as the ROV market in Norway is relatively limited, Haugerud argues that it is a necessity for the company to be present in the global market. Thus today Sperre exports their products to several countries, such as Denmark, Finland, the USA, Iceland, Russia and Sweden. The majority of international sales have traditionally been exported directly. However, Haugerud says that Sperre has recently entered an agent agreement with the Danish company MacArtney, a global supplier of underwater technology with offices in many parts of the world. The agreement is that MacArtney is to act as a reseller of Sperre's products in the countries where the agent has an office. Except for customers in these locations, all clients are handled directly by the Sperre management in Notodden. According to Haugerud, the rationale for entering an agent agreement is that MacArtney is a large and recognized firm with wide experience of the market. Furthermore, Haugerud expresses that Sperre knows the company well, has a rapport with them, and that MacArtney is considered a good match with their own firm. Nevertheless, the agreement with MacArtney is relatively new, and Haugerud states that till now, only two ROVs have been sold through the agent, both in Denmark.

4.6.3 Brazil entry

The idea to enter the oil and gas market in Brazil was suggested to Sperre by the local branch of Innovation Norway. When asked about the entry mode choice, Haugerud replies that Sperre wishes to leverage on their relationship with MacArtney, and use this company as a dealer for them also in Brazil. Haugerud reports that MacArtney has an office in Brazil, and has been present there for about three years. MacArtney's Brazil office mainly employs local staff, and has an established network as well as knowledge of how to do business in the country. Haugerud claims that these are important aspects; Sperre must adapt to the Brazilian way of doing business, and need to access knowledge of the market through a representative in Brazil. Haugerud argues that Sperre is too small to be able to enter the market on their own; starting their own sales office or selling directly to companies in Brazil has not been considered an option. The main goal is thus to leverage on someone who is already present in the country, and Sperre is currently working on establishing an agent agreement with MacArtney in Brazil.

4.6.4 Challenges in Brazil

In Haugerud's opinion, the main problem in Brazil is getting items through customs and into the country. Import taxes are very high, and companies risk that their products get stuck in customs for an extensive period of time, often without a proper response to why the goods are

not allowed to enter the country. According to Haugerud, the high import taxes are related to the government's emphasis on local content. Moreover, Haugerud states that in order to fulfil the demands of local content, Sperre will provide and maintain control over the electronics and sketches required in the manufacturing process, while MacArtney hopefully will perform machining and assembly in Brazil.

Haugerud further remarks that another barrier when entering the Brazilian market is to establish dialogue with potential clients. Haugerud states that on its own, Sperre lacks the necessary network to achieve first hand contact. Nonetheless, the company hopes that Innovation Norway, and potentially MacArtney, may act as a door opener to the Brazilian market.

Although Brazil is considered an emerging market, Haugerud is not worried of any macro-economic fluctuations or political changes. Although Haugerud states that she has not paid too much attention to the economic and politic climate, she is under the impression that the Brazilian government is now trying to hinder corrupt practices and to build up the country in a positive manner, and that so far they have achieved a good start. Hence, according to Haugerud, selling ROVs to Brazil is, in this manner, no more complicated than selling to any other country.

4.7 Summary of entry mode choices

Table 5 provides a summary of the entry modes the firms prefer to apply in their Brazilian entry. The majority of the firms wish to enter through indirect export. SafeClean is the only respondent which consider entering through a mode other than export; still, the decision is yet to be made. Likewise, although Petrell, Norske Ventiler and Sperre have all declared their preferred entry mode, there are still aspects that need to be clarified before the final decision can be made.

	Petrell	SafeClean	NV	Sperre
Preferred entry mode	Indirect export (agent)	Agent, Joint Franchising or Subsidiary	Indirect export (agent)	Indirect export (agent)

Table 5: Preferred entry modes of the respondent SMEs

5 Cross-case analysis

While a brief overview of the companies and their entry mode considerations was presented in the previous section, this chapter seeks to synthesize the findings across the four companies, and provide a more thorough analysis of aspects that influence the entry mode decision of the respondent SMEs. The companies are still in the process of deciding on the proper entry mode in Brazil, and a final decision is yet to be made. Still, the findings reveal several factors that are considered by the firms when different entry modes are evaluated, and these are presented here.

As the case interviews were quite extensive, a large number of arguments were made by the respondents regarding entry into Brazil, and not all were are equally relevant to the entry mode choice and to this study. Moreover, certain aspects were considered by some firms, while others did not have any particular opinion regarding them. For an aspect to be included here as an influence to the entry mode choice, it either had to be considered influential or important to at least one of the case companies, or of some influence to a majority of the firms. Furthermore, it is worth noticing that the various factors influence in differing manners; while some exert direct pressures in favour or disfavour of certain entry modes, others are merely stated to be taken into account in the process.

In order to provide the analysis with more structure, and to make it easier for the reader, the factors influencing the entry mode decision are organized and presented in three categories. First, some influences are related to specific circumstances in Brazil, and are thus *external* to the firm. Others, on the other hand, are related to aspects of the firm itself, and are thus *internal* to the firm. A third group of influences arise in the *cross-section* between the external environment and the firm. In addition, the influences are arranged according to importance. Thus within each category, the influences are presented in the order of their importance to the SMEs; that is, how many of the firms that mentioned this aspect and how influential it was.

5.1 External influences

There are several influences to the entry mode decision which arise from particular aspects of the Brazilian environment and market. These are the *labour market*, *local content policies*, and *cultural differences*.

5.1.1 The labour market

Conditions in the labour market in Brazil exert a considerable influence on the entry mode choice of the majority of the respondents. Difficulties in attaining suitable personnel and consequent high labour costs cause both Petrell and NV to rule out the option of establishing a Brazilian office as it is simply too costly; thus aspects of the labour market narrow the range of possible entry mode by precluding those involving foreign direct investment. NV states that cost-wise, Brazil is at the level of a developed economy, and the firm is worried about the labour costs in the country. Petrell agrees with this line of argument, and replies that the Brazilian government's protectionist rules and regulations have caused labour to become too expensive. SafeClean, albeit still early in the entry mode decision process, is the

only respondent that has the establishment of a Brazilian entity as one of the options considered. Still, this company also states that the cost of doing business in Brazil is an important factor in their assessment process.

However, it is not only the costs of employees which worry the firms; Brazilians are also known for a low degree of loyalty to their employers. While SafeClean replies that they need to examine whether loyalty of employees will potentially be a problem, the interviewee from Petrell goes as far as saying that "finding a person who is both technical and loyal is like winning the lottery". Thus both the cost and degree of loyalty of local employees significantly raises the bar for entering Brazil through subsidiary establishment.

5.1.2 Local content policies

Among the case firms, responding to the demands regarding local content is considered one of the major challenges of entering Brazil. Petrell states that they wish to enter by exporting, while at the same time local content demands may lead to the need for a more physical presence. SafeClean also suggests that local content is an important part of the agenda, and that this aspect is taken into account in their process of deciding on entry mode. Norske Ventiler says that whether or not they will enter through an agent depends partly on local content policies. According to this company, the local content demands, and how the Brazilian government may develop their policies regarding this matter, is the foremost challenge of entering Brazil. Norske Ventiler even argues that they may choose to alter their product portfolio in Brazil in order to avoid responding to the demands of local content. Nevertheless, while Petrell and NV wish to find ways to make local content demands less relevant to their firm, SafeClean wishes to maximize local content, as this is believed by many to provide a competitive advantage in Brazil. Sperre also pays attention to local content demands, and states that they will be able to fulfil local content criteria by having an agent that performs production in Brazil on their behalf. Accordingly, all firms suggest that local content demands is addressed in the entry mode choice, and for several of the firms, it determines whether a certain entry mode will be the best (or a feasible) option, given the regulatory climate.

5.1.3 Cultural differences

All the respondent firms are concerned with the cultural differences between Brazil and Norway. Petrell, SafeClean and Sperre all explicitly state that differences in culture represent a challenge which they take into account in their entry mode choice. Both Petrell and Sperre suggest that one of their main motivations for entering through a Brazilian representative is to gain access to their knowledge of the market and of the business culture. Additionally, both firms argue that language differences are a major barrier in Brazil. Most Brazilians speak English poorly, which complicates communication with potential partners and clients. Thus, both firms state that without the assistance of someone who speaks Portuguese, gaining a foothold in the market can be very tough. Sperre's potential agent (MacArtney) has been present in Brazil for approximately three years, and the employees at their subsidiary are locals with knowledge of how to navigate in the Brazilian business landscape. Petrell's potential agent also employs Brazilians, as well as Scandinavians who have lived in Brazil

for several years and thus have become integrated in the country's culture and speak the language well. Also SafeClean, who is still in the process of deciding on entry mode, argues that cultural differences are something they take very seriously, and that it will be a decisive factor in further proceedings.

5.2 Internal influences

Some influences to the entry mode choice arise from aspects particular to the firms. These are *the firm's resource base*, *uncertainty of demand, mode experience* and *country-specific experience*.

5.2.1 The firm's resource base

Although the most common way to enter Brazil is through establishing a subsidiary (4.1.3), this option was never even considered by three of the respondent firms. Only SafeClean are paying attention to the possibility of opening a Brazilian office. Petrell, NV and Sperre, on the other hand, all state that they consider their company too small to have a Brazilian office as a viable option, at least for the moment; they do not have the necessary resources. Petrell argues that they are a small firm, and that establishing a subsidiary is demanding and extremely costly. For the time being, the required capital poses limitations for the company; they do not have sufficient financial means, and the company still needs to invest a large share of their earnings back into technology development. Additionally, Petrell's work force is very young, and the company has engaged in significant amounts of training over the last few years. This is argued by the respondent to also narrow the attainable options, as the company would need more senior staff if they were to start up a Brazilian office. Thus limitations in both financial and managerial resources of the firm are considered to make equity modes infeasible. NV applies a similar reasoning, and maintains that the company is simply too small to establish something on their own; it would be too resource-intensive. Establishing a Brazilian entity is thus out of the question. Sperre agrees with the latter two companies, and states that their small size prevents them from establishing their own office in Brazil. Lastly, even though SafeClean is considering opening a Brazilian office, the resource base of the firm is still an important concern. Also this company recognize that their financial strength is limited, which must be taken into account when the final choice is to be made.

Moreover, also direct export is considered too resource demanding by several of the firms. Sperre suggests that their small size makes it too difficult to enter by direct export. They prefer to enter with the assistance of a local company; if they were to enter on their own, either through their own office or by direct sales, the interviewee claims that "they wouldn't even have known where to begin". Petrell and NV state that obtaining clients and maintaining relationships in Brazil is too resource intensive for them to do on their own, and thus prefer to enter with the assistance of a local intermediary. Thus resource aspects appear to be important considerations in all the firms' entry mode choice, and while resource constraints prevent the majority of the firms from even considering equity entries, it also causes them to prefer indirect over direct export.

5.2.2 Uncertainty of demand

An aspect that all case companies have in common is that they are risk averse and tread very carefully with regard to their Brazil entry. However, the type of uncertainty that is most important to the firms is not circumstantial uncertainties in the macro-environment, but uncertainty regarding potential sales volumes. Petrell, SafeClean and NV state that they cannot afford to fail in their Brazilian entry; they need to do things right. Petrell argues that they do not wish to take on too much risk in their Brazil entry. Entering through export is, in their opinion, the simplest form of entry, and the company is cautious and wishes to obtain initial sales and gain a foothold in the market before proceeding any further. If there in time is sufficient interest for their products and services in Brazil, Petrell suggests that they may consider establishment of an office. Until then, the world is so full of opportunities that there is no point in establishing an office where demand is uncertain. NV shares Petrell's concern. Although the company alleges that Brazil is a country of enormous opportunities, and that it is important to create a position in the market, NV is still uncertain of the demand for their own valves. Without very clear signals of expected sales volumes, it is simply too risky to establish an office. Exit opportunities must be maintained; Brazilian employees are well protected by law, so if the company should wish to withdraw, they would incur significant financial losses. Hence, also NV acknowledges that demand uncertainty precludes the company from entering with a subsidiary. Also SafeClean suggests that they need signals of sufficient demand if they are to establish a subsidiary. Through a pilot project they wish to obtain an initial client; however, the firm does not have enough information about the market to make an entry mode decision yet. Thus demand uncertainty is also an aspect considered in regards to their entry mode choice. Hence, although the oil industry in Brazil is booming, the companies respond that the demand for their respective products and services will not necessarily be sufficient to justify a resource-intensive entry mode, such as a Brazilian subsidiary. Consequently, there is a preference for doing it "the easy way" first; gain an initial foothold in the market, and then, possibly, commit more resources if the market potential is seen as sufficient to justify the costs.

5.2.3 Mode experience

Most of the business conducted by all the case companies has been direct sales managed from their head office in Norway, both domestic and internationally. Except for NV's small subsea office in Drammen, the companies do not have any offices or production facilities besides their headquarters, neither in Norway or abroad. In the Norwegian market, all four case companies handle clients directly from their head office, without the involvement of any intermediaries. In terms of international sales, the sales are divided between direct export and sales through an agent or distributor. Petrell mostly sells directly, but has agents in two locations: Abu Dhabi and Korea. Nevertheless, direct sales here are forbidden by law; hence rules and regulations force Petrell to operate through a local representative. NV has agents in the US and Canada, and is currently establishing a distributor in Australia. They operate through agents not because of legal obligations, but because they, in countries that are geographically distant, find it easier to maintain communication with clients when they have a local representative. Sperre conducts the majority of their sales directly, but have

established an agent agreement with the Danish company MacArtney, which applies in the countries in which this agent has offices. The rationale behind this choice is that MacArtney is a large, experienced and recognized firm, and Sperre wishes to leverage on MacArtney's reputation as a trusted agent. As mentioned in 4.4.2, SafeClean has no international sales.

Upon entering Brazil, Petrell, NV and Sperre's declared preference for entry modes all coincide with forms of entry they have used in previous international sales. NV's choice, most likely to enter with an agent, coincides with their entry into Australia; the last geographically distant country they entered. Furthermore, although Sperre has most experience in direct sales, they have established what they describe as a 'good dialogue' with MacArtney and argues that they 'know the company well', and thus wishes to extend the newly established agent agreement to include Brazil. Petrell has prior experience with agents in two countries. However, originally their first choice of entry mode was direct sales, which is the business model they have applied for all their domestic sales, as well as most of their international sales, except when they were not allowed to by law. Still, they later changed their mind, and now wish to enter through a local intermediary. Thus for this company, it appears the mode experience was of some influence at first, which was later overruled by other considerations. Still, it seems that entry mode choice is influenced by experiences with past sales modes, and that the experience with international sales modes is of greater influence than domestic experience.

5.2.4   Country-specific experience

None of the respondents has any direct experience in the Brazilian market. Although the majority of the firms exports to customers in a wide variety of countries, several respondents argue that the prior international entries were considerably different from the forthcoming Brazil entry. According to Petrell and Sperre, sales to other countries were mainly initiated by the firm being approached by foreign companies, which the firm then took on as clients. Accordingly, the international sales of Sperre and Petrell were mostly a reactive response to international demands. Sperre states that it is in fact quite arbitrary which countries they sell to, while Petrell says that their clients find them, and not vice versa. Thus the situation in Brazil is quite different as the companies are now actively pursuing entry into the market – after having received an invitation to join the Navigator-project – without having any clients in the country in advance. What is more, the experience gained from exporting to other countries does not necessarily make a Brazilian entry easier. Petrell says that in other countries, their client portfolio consists of large, international oil companies of American or European heritage, with which they know how to do business. And Petrell argues that although they have gained some experience from dealing with other countries, they face a serious language barrier in Brazil, and a business culture that is totally different. Also Sperre argues that it is challenging to face a new business culture in Brazil. Thus their prior international experience is not necessarily applicable to the Brazil entry. Although all the respondent firms state that the Navigator-project has provided them with valuable information regarding knowledge of the business environment and cultural differences, the

challenges of facing an entirely new context is still a major concern which must be accounted for in the entry mode choice.

Additionally, several of the firms argue that they need access to networks in Brazil. Petrell argues that networks are vital for business in Brazil, and although they have received assistance from Innovation Norway, they have struggled to achieve contact with the right people. Accordingly, Petrell views the network of the agent as highly valuable. Sperre also suggests that they lack a network in Brazil; nonetheless, they hope that Innovation Norway may act as a door opener to first hand contact, and that MacArtney may further assist the company in accessing the market. Meanwhile, SafeClean is of the opinion that Innovation Norway and INTSOK currently provides them with sufficient network. Nevertheless, all firms agree that networks are vital for business in Brazil. Moreover, both networks as well as the previously mentioned cultural aspects are context-specific. Thus as the firms lack country-specific experience, they need to leverage on external parties for networks and knowledge of how to do business, on either local incumbents or support organizations, or a combination of these.

5.3   Cross-sectional factors

The last group of influences arise in the cross-section between the external environment in Brazil and firm-specific factors. These are *protection of proprietary knowledge* and *uniqueness of products and services.* Protection of proprietary knowledge arises in the cross-section between the nature of the firm's technology and the risk of technology leakage in Brazil. The uniqueness of products and services moderates the impact of local content policies.

5.3.1   Protection of property rights

As discussed in 4.1.2, Brazil scores relatively low regarding property rights protection, an aspect which is of considerable importance to one of the firms. SafeClean states that the main challenge and biggest threat of entering Brazil is the risk of technology leakage. The company also says that this risk is a direct influence in their entry mode considerations. SafeClean will attempt to choose the entry mode that minimizes the risk of knowledge dissemination. Moreover, the firm is far more concerned with leakage in Brazil than in Norway. Petrell, on the other hand, is not at all worried about loss of private property in Brazil. Although the company has not investigated the general level of property rights protection in Brazil, they argue that Norwegians and Brazilians are actually very similar, and that Brazilians are 'no more crooks than us'. Thus they do not worry any more about technology leakage in Brazil than in Norway, and trust people generally to be more honest than dishonest. This said, Petrell adds that they refrain from selling their software to Russia, China or Iran, as they believe the likelihood of negative exploitation to be significant in these countries. Accordingly, in previous entries the risk of technology leakage has influenced whether or not they have decided to enter the country. Brazil, however, is perceived as safe in terms of dissemination risks. Thus SafeClean and Petrell are of opposing views. Their contradictory opinions might be explained if only SafeClean derived its advantage from proprietary technology, and Petrell thus did not have the same reason to fear dissemination.

However, both firms compete on the basis of proprietary knowhow. Moreover, since Petrell argues that they have considered the risk of leakage in other countries, it is accordingly the companies' views on the Brazilian environment that differ.

NV and Sperre shares Petrell's view, and are not worried about technology leakage when they enter Brazil. However, Sperre remarks that the technologies they apply are known in the markets, and 'anyone who wants to make an ROV can make one', whereas NV states that even though Brazilian companies should attempt to copy their valves, they would need extensive certificates of approval to be able to sell them; a process which is so costly, resource-intensive and time consuming that the overall gain would be minimal. Thus these firms do not have the same reason as the two former to fear infringement of property rights. Overall, it appears that the level of property rights protection to some extent influences the entry mode choice of firms competing on the basis of proprietary knowledge which potentially may be exposed to private expropriation.

5.3.2 Uniqueness of products/services

As previously mentioned, all case companies report that Brazil has strong guidelines regarding local content, and that these must be taken into account in their entry mode choice. However, the companies also respond that the degree to which these regulations apply may differ; the extent to which their product or service is unique in Brazil determines how much the firms need to abide by local content policies. Petrell suggests that there is most likely no other company in the world that is currently able to match their technology and analyses. Thus in Petrell's opinion, they have a monopolistic advantage. Consequently, they argue that their company does not need to meet the same demands to local content as other firms. This aspect has a direct influence on their entry mode choice; Petrell states that they will only be able to serve the market through export if local content guidelines do not prohibit them. As noted in 4.5.1, NV manufactures and sells two types of valves: topside and subsea. According to NV, the demands regarding local content differ substantially between these two product categories. In the market for topside-valves, which in Brazil are considered a commodity product, the company remarks that they are met with strong guidelines regarding local content, and that this may affect their entry mode decision. Subsea-valves, on the other hand, enjoy a different position. As these products cannot be obtained in South America, customers are forced to import, and are not in a position to set demands regarding local content. Accordingly, local content guidelines, and thus the need for local representation, depend on which products NV chooses to focus on in their Brazil entry. As the uniqueness of a company's products and services influences the degree to which local content policies apply, it follows that this aspect also influences the entry mode choice, by moderating the effect of governmental demands.

5.3.3 Synthesis

Table 6 summarizes the various aspects that influence the entry mode choice of the four case companies, respectively. However, not all variables are equally important. Across the sample of firms, local content policies, the labour market, the resource base of the firm as well as uncertainty of demand are the most considerable influences to the entry mode choice across

the firms. Nevertheless, these aspects are interlinked; the local content demands have contributed to a tight labour market, which again has increased costs of operating in Brazil to the extent that the SMEs limited resource base precludes the establishment of a Brazilian entity. Moreover, given the resource commitment needed to establish an office in Brazil, such a mode choice is highly risky, hence the uncertainty of demand becomes an important influence. Furthermore, cultural differences are considered a challenge, and influence the entry mode decision of the majority of the firms. Cultural differences, as well as lack of networks cause an increased need to leverage on external organizations, as the companies lack country-specific experience. Protection of proprietary knowledge is found to be of some concern due to increased risk of dissemination in Brazil, whereas the uniqueness of products and services for some of the firms moderates the influence of local content demands. Furthermore, most of the firms have also considered the same entry modes as previously adopted abroad, and two of them explicitly mention positive experiences with their prior entry mode choice. To conclude the discussion of the influencing variables, it is evident that most of the influences, either directly or indirectly, stem from aspects of the Brazilian environment. This is not surprising, as all companies view Brazil as a highly challenging country to enter, and as Brazil represents an entirely new context.

Influences to the entry mode choice	Petrell	SafeClean	NV	Sperre
External influences				
Labour market	x	x	x	
Local content policies	x	x	x	x
Cultural differences	x	x		x
Internal influences				
The firm's resource base	x	x	x	x
Uncertainty of demand	x	x	x	
Mode experience	x		x	x
Country-specific experience	x			x
Cross-sectional influences				
Protection of proprietary knowledge		x		
Uniqueness of products/services	x		x	

Table 6: Influences to the entry mode choices of the respondent SMEs

5.4   The entry mode process

So far, influences to the entry mode decision have been presented. Still, the data in this study has been collected while the firms were in the middle of their entry mode process; thus there are some aspects regarding the process that are worth noting, and which may have an indirect impact on the entry mode choice.

5.4.1   A narrow range of entry modes considered

The findings suggest that, excluding SafeClean's consideration of joint franchising, the only entry mode options considered by the SMEs were exporting – direct or indirect – and establishing a Brazilian subsidiary. When asked directly whether the respondents had considered any other entry modes, the answer was no. Direct exporting, indirect exporting

and a Brazilian subsidiary are also the entry modes which are presented to them by Inventure Management in their extensive document "How to do business in Brazil". Additionally, during the Navigator-seminar in January, these were the modes which received the majority of the attention. Roxar, a Norwegian SME which has established a Brazilian office, held a presentation in which agent, reseller and wholly owned subsidiary were the three options mentioned. Another presentation, regarding international contracts, discussed contract management of direct sales, as well as agent- and distributor-agreements. Furthermore, there were two presentations regarding export funding, held by Eksportfinans and Nopef, respectively. Hence the SMEs, facing limited financial means, were informed of their opportunities of funding, but only in the case of an entry mode involving export. Thus the findings suggest that the Navigator-project and the role of supportive organizations are likely to cause a bias towards the three entry modes direct export, indirect export and establishing a subsidiary, and may cause the respondent firms to be unaware of other options.

5.4.2 Lack of structure in the evaluation process

While SafeClean reports of a somewhat structured evaluation process involving workshops and on-going consideration while gathering more information, the entry mode choices of the other firms appear a little more *ad hoc*. Sperre seems to have jumped straight to the conclusion that entering with MacArtney as a dealer was the way to go. Although they have come up with alternate firms that may represent them, no other entry modes appear to have been considered; at least not as realistic options. Petrell prefers to enter "the easy way", and have administrative costs as a major concern. Exporting is considered to involve "less fuzz", and other options will only be considered if, and only if, export is impossible due to local content demands. Meanwhile, NV has positive experiences with agents and distributors in distant countries, and appears to believe that entry through an external intermediary is the best approach regarding foreign entries in general.

5.4.3 Contradictory perceptions of Brazil

The firms also express contradictory perceptions of Brazil. While SafeClean considers protection of private property rights to be an issue in Brazil, and considers this in their entry mode choice, Petrell is no more concerned about technology leakage in Brazil than in Norway. Sperre shares this perception, and does not view Brazil as being any more risky than other countries. The reality is that Brazil scores significantly lower than Norway on the level of property rights protection (4.1.2). Thus the conflicting views may arise because respondents do not have sufficient knowledge of the institutional environment in Brazil.

6   Discussion

This thesis examines factors that influence the entry mode choice of SMEs entering emerging markets. In the conceptual background it was suggested that transaction cost theory (TCT), resource-based theories (RBTs) and institutional theory (IT) were suitable for explaining the entry mode choice of SMEs in emerging markets, and propositions were posed regarding how factors drawn from these three theoretical perspectives might influence the entry mode decision. Sections four and five then provided an overview of the results from the data collection. The main objective of this section is to combine the theoretical aspects with the empirical evidence, and provide a discussion of the findings. The first sub-chapter discusses the empirical data in light of the theory presented in the conceptual background, with the objective of providing answers to the research question of this thesis. The second sub-chapter uses these findings to draw inferences regarding each of the three theoretical perspectives, respectively.

6.1   Main findings

This sub-section directly addresses the research question, and seeks to answer which factors that influence the entry mode choice, as well as how they influence. First, the propositions are discussed in light of the empirical evidence, to examine whether the findings are in accordance with the expectations formulated prior to the data collection. Second, influencing aspects not covered by the propositions are discussed, and a revised edition of Figure 1, which presents the factors influencing the entry mode choice of SMEs in emerging markets, is presented.

6.1.1   Influence of theoretical variables

This thesis has presented eight propositions. Each of the propositions are related to expected influences to the entry mode choice; environmental uncertainty, cultural differences, international experience, country-specific experience, asset specificity, mode experience, regulatory pressures and formal institutional risk.

Environmental uncertainty
According to transaction cost theorists, firms will respond to environmental uncertainty by seeking to maintain flexibility through lower resource commitment. Proposition 1 thus suggests that when SMEs enter emerging markets, their resource commitment is an inverse function of the perceived external uncertainty regarding macro-economic and political conditions. Empirical findings suggest that the respondent firms perceive Brazil to be in a relatively stable position. Although Brazil has a history of economic fluctuations, neither of the firms is particularly worried about future environmental conditions. In their opinion, the government has taken important measures to stabilize the country, and prospects are good. This should reduce the difficulties in predicting future events, and make an investment in Brazil less risky. Hence a lower degree of flexibility is needed, and SMEs may enter through higher commitment modes.

Still, except for only one firm, all case companies prefer to enter through the lowest commitment mode. Although several firms respond that the need to maintain flexibility is an

important influence to this choice, it is not the concern for economic volatility or unfavourable political changes that induce this mind-set. Rather, it is the uncertainty regarding future demand. Establishing a Brazilian office is too risky unless there are clear signs of a sufficient market potential for the firms' products and services. Thus where the contextual conditions according to theory would predict an entry with higher resource commitment, the firms are more concerned with demand uncertainty, causing them to emphasize the importance of flexibility and exit-options. This may be due to the fact that SMEs have a limited resource base, and may be more vulnerable to losses than large MNEs. While an MNE might be able to afford a few initial years of negative profits, SMEs are not likely to have the same luxury. Small firms must allocate their resources wisely, and constantly pursue the markets in which they see greatest potential. They cannot risk being tied up in one country if the opportunities are better elsewhere. Hence, although research on MNEs shows that they tend to prefer high commitment modes when the external environment is considered stable; SMEs most likely have other concerns with a greater impact on the entry mode choice. Proposition 1 is thus not supported.

Cultural differences

Proposition 2 suggests that SMEs entering culturally distant countries prefer low commitment modes, and that the need for a partner or intermediary will increase. Both these expectations are caused by a need to adapt to the prevailing informal institutions in the host country. Two of the firms explicitly state that they need a local intermediary to help them understand and adapt to the Brazilian environment. This coincides with the expectation that the high cultural differences lead to difficulties of comprehending the normative environment, and thus an increased need for a relational mode in order to obtain knowledge of the local business conditions and social legitimacy. Moreover, both these firms enter through low control modes. This is in accordance with transaction cost theory, which suggests that unless there are substantial gains from doing business in "the Norwegian way", maintaining low control while adapting to the Brazilian business environment should be preferred. Still, none of the three firms which prefer export entries indicates any causality between high cultural differences and the choice to enter through low control modes. Thus the findings are not sufficient to justify the validity of the proposed relationship between cultural distance and control. Overall, there is support for the suggested need for a partner when cultural differences increase, as proposed by the sociological stream of IT, while there is no evidence for the suggested need for reduced control, as proposed by TCT. Accordingly, proposition 2 is partly supported. Furthermore, aspects from IT appear to have a greater explanatory power than TCT.

International experience

Proposition 3 suggests that SMEs will choose more resource intensive, complex entry modes as international experience increases. According to scholars within RBTs, inexperienced firms tend to start out with simple exporting. However, the one firm in this thesis without prior international experience is in fact the only respondent that considers entering through a high commitment mode. This finding also contradicts transaction cost theorists (Brouthers &

Nakos, 2004), who suggest that inexperienced SMEs are better off shifting the control of foreign operations to a local resident, such as an agent. Although the SME in question has an agent agreement as one of their possible options, they also consider a wholly owned subsidiary, which involves a larger degree of risk, commitment and control than would be expected according to both RBTs and TCT, given that Brazil is the company's first foreign market.

As the other three SMEs all have experience from exporting to several international markets, it would not be unnatural to assume that at least one of these firms in terms of international experience had progressed to the point where they decided to take the next step and enter via a higher commitment mode. Nevertheless, all three of these SMEs are sticking to exporting, not even considering any more complex entry modes. Thus due to the findings regarding all four case companies, previous international experience appears to be of limited influence to the entry mode choice, and no support is found for proposition 3.

Country-specific experience
Nevertheless, the findings indicate that prior international experience may not be directly transferrable to the Brazilian entry, both due to a more reactive approach to other markets, as well as Brazil being a more challenging and culturally distant country to enter. This leads to the discussion of proposition 4, which suggests that compared to general international experience, country-specific experience is likely to exert a greater influence on the entry mode choice. Proposition 4 suggests that SMEs without such experience will defer from entering through high commitment modes. All the firms claim that, through participation in the Navigator-project, they have received information about the Brazilian culture and business environment as well as assistance in obtaining initial contact with potential clients and partners. These are important context-specific resources, and the need for access to such resources is partly the rationale behind the suggested impact of country-specific experience (2.5.5). Still, firm capabilities regarding how to compete in Brazil can only be obtained through direct experience. In addition, several firms suggest that their knowledge of the business culture is insufficient, and also argue for the need for a broader network. Consequently, the Navigator-programme cannot replace the value of country-specific experience, which may be a reason why the majority of the firms prefer to enter through low-commitment modes. According to Anderson and Gatignon (1986) neophytes tends to fear the unknown and overstate risks. Overly conservative, they thus avoid setting up foreign business entities (Anderson & Gatignon, 1986). Thus regarding resource commitment, it seems that proposition 4 is supported.

Proposition 4 also argues that there will be an increased need for a partner when entering a new host country. Access to local incumbents' context-specific resources will mitigate liability of foreignness and make it easier for SMEs to achieve legitimacy. Except for one of the firms, which still has not decided on entry mode, all the respondents wish to enter through a local representative. Moreover, two of these firms explicitly argue that a rationale behind their choice is access to important context-specific resources such as knowledge of the culture and the market, as well as networks. While support programmes may to a certain

extent provide local knowledge and initial contacts in the host country, it appears that the contribution is insufficient. Hence seemingly, there is also support for proposition 4 regarding the partner effect. Furthermore, as expected, country-specific experience is of greater influence to the entry mode decision than general international experience, as is also suggested by proposition 4. Lastly, regarding the influence of country-specific experience, the arguments within both RBTs as well as the sociological stream of IT are supported by the findings.

Asset specificity

Proposition 5 suggests that SMEs with a high degree of asset specificity are more likely to enter through higher control modes, as asset specificity creates a lock-in effect and proprietary assets need safeguarding. Accordingly, if an SME would risk being locked into a relationship with an agent or another contract partner, it would be better off internalizing the activities through direct export or wholly owned subsidiaries. Two of the firms indicate that a potential agent will mainly act as communication and marketing intermediary, whose main control is to find and maintain relations with potential clients. This is not likely to create a very asset-specific working relationship, thus the choice of such a low control mode makes sense from a TCT perspective. Yet, neither of these firms mentions rationales connected to asset-specificity or control as influences to their entry mode choice. Rather, they emphasize other aspects. Accordingly, the findings do not suggest any connection between low asset specificity and the choice of an agent; hence the relationship is more likely to be spurious than casual. Another firm will have their agent performing significant tasks such as production and assembly, and the agent needs considerable insight into their products. Although the technology utilized is not proprietary, the agent will need significant amounts of training and efforts must be made to ensure that the agent appreciates and prioritize their products. Such a relationship implies a high degree of asset specificity, and TCT suggests that firms in such situations would be better off conducting the activities themselves through internalizing the activities. Yet, resource constraints prevent the SME from doing so. The last firm partly bases their entry mode choice upon the need to safeguard proprietary knowledge, which is an important type of specialized asset. However, as this firm has not yet decided on entry mode, it is not certain whether this type of asset-specificity will lead to a high control mode. Moreover, despite the need for technology protection, the firm is still considering two modes with relatively low degree of control. To summarize, the findings do not indicate a positive relationship between asset-specificity and high control; thus proposition 5 is not supported by the evidence.

Mode experience

Proposition 6 suggests that SMEs are likely to adopt previous patterns and choose modes based on experience with existing sales channels. The findings shows that three of the companies prefer to enter Brazil through an entry mode they have previously used when entering foreign markets. Moreover, one of the firms explicitly states that relational capabilities developed through prior mode experience cause them enter with the same agent in Brazil, while another firm prefers the same approach as in their previous distant market

entry. Thus it appears that the view of Burgel and Murray (2000) is supported; firms utilize previously developed capabilities in subsequent related endeavours. Furthermore, the evidence suggests that the firms considered a very narrow range of entry modes. Indeed, several of the respondent firms jumped straight to one entry mode, without paying particularly serious attention to other options. In addition, the selection process for several of the firms seemed rather unstructured, and the modes chosen in such circumstances were modes used in prior international expansions. A possible explanation is that the previously used modes are placed within the firms' cognitive schemata as "successful", limiting the firms from exploring other options more thoroughly. This argument is in line with the sociological stream of institutional theory. Thus it may be argued that SMEs' cognitive domain and past history influence the current entry mode choice. Accordingly, proposition 6 is supported by the evidence, both from a resource perspective as well as an institutional perspective.

Regulatory pressures

Proposition 7 suggests that pressures from rules and regulations in the host country will influence SMEs' entry mode choice. The findings show that one of the most important influences to the entry mode choice of the respondent firms is the demand regarding local content. These demands stem from rules and regulations established by the government in Brazil, and are thus a result of the regulatory domain and formal institutions in the host country. Accordingly, the local content policies exert a regulatory pressure to which the respondent firms must conform in order to gain legitimacy and obtain clients. Meanwhile, some of the firms have unique products or services that provide them with bargaining power towards clients regarding local content demands; thus the extent to which they can avoid the demands also influences their entry mode choice. Thus proposition 7 is supported; however, the degree of impact of regulatory pressures depends partly on aspects peculiar to the firm.

Formal institutional risk

Proposition 8 suggests that when SMEs competing on the basis of proprietary knowledge face high formal institutional risk in the host country, they will attempt to safeguard their knowledge by entering through high control modes. As mentioned in 4.1.2, Brazil provides weaker protection of property rights than Norway, as well as other developed economies, and is thus a host country of relatively high formal institutional risk. Among the four case companies, two derive their competitive edge from proprietary technology. Thus it would be expected that the need to safeguard their knowledge would have an impact on entry mode choice. This is certainly the case for one of these two SMEs, which states that risk of technology leakage in Brazil is a major concern and an important influence in their entry mode decision process. Nonetheless, as this firm still has not decided on entry mode, it is too soon to argue whether or not formal institutional risk pushes the decision in the direction of a higher control mode. The other firm, on the other hand, is not worried about technology leakage in Brazil. Still, as the company has previously refused to enter other emerging markets due to risk of knowledge dissemination, they clearly consider formal institutional risk upon entries into such economies. Brazil, however, is perceived as safe, even though

objective information may indicate otherwise. A possible explanation may be the lack of a structured evaluation process; the firm itself admits that they have not formally evaluated the level of property rights protection in Brazil. Accordingly, an increased knowledge of the institutional environment might have altered their perception of the formal institutional risk. To summarize, it appears that formal institutional risk is of some concern to knowledge intensive SMEs, and that it influences their entry into foreign markets. Still, due to limited evidence, the relationship between high formal institutional risk and high control modes cannot be validated. Thus proposition 8 is only partly supported.

Summary of propositions and influences

An overview over the degree of support for each proposition is presented in Table 7. Note that the table also presents the degree of support within the various theoretical perspectives, before the overall conclusions are presented in the last column. The rationale behind exhibiting the findings in this manner is twofold. First, several propositions were discussed in light of more than one theory, sometimes causing expectations and conclusions to differ. Second, while the objective of this thesis is to examine factors that influence the entry mode choice of SMEs, the findings also reveal implications for the theoretical perspectives applied to extract the proposed influences. Displaying the findings across theoretical perspectives provides increased insight into these implications, which are discussed in 6.2.

#	Influence	Degree of support				
		TCT	RBTs	IT (ec)	IT (soc)	In total
1	**Environmental uncertainty**	*not supported*				*not supported*
2	**Cultural differences**	*not supported*			*supported*	*partly supported*
3	**International experience**	*not supported*	*not supported*			*not supported*
4	**Country experience**		*supported*		*supported*	*supported*
5	**Asset specificity**	*not supported*				*not supported*
6	**Mode experience**		*supported*		*supported*	*supported*
7	**Regulatory pressures**				*supported*	*supported*
8	**Formal institutional risk**			*partly supported*		*partly supported*

Table 7: Degree of support for the propositions

The data collection did not provide sufficient evidence to back a relationship between asset specificity and the entry mode choice. Environmental uncertainty was not found to have any influence; flexibility needs are of considerable concern, albeit for different reasons. Prior international experience was not found to impact on the entry mode decision, as the extent to which this general experience was transferrable to the Brazil entry was limited. As expected, country specific experience was a stronger predictor. Without such experience, the firms deferred from committing considerable resources. Furthermore, both lack of country-specific experience as well as high cultural differences were found to increase the SMEs' need to leverage on a local representative for context-specific resources. Prior mode experience was found to cause the SMEs to adopt previous entry mode patterns. Regulatory pressures in the form of local content demands forced the SMEs to take local rules and regulations into

account in their entry mode decision, whereas formal institutional risk caused a need to safeguard proprietary assets. To summarize, when theory is used as a basis to extract influences, the factors which are found to influence the entry mode decision are: *country-specific experience, mode experience, cultural differences, regulatory pressures and formal institutional risk*.
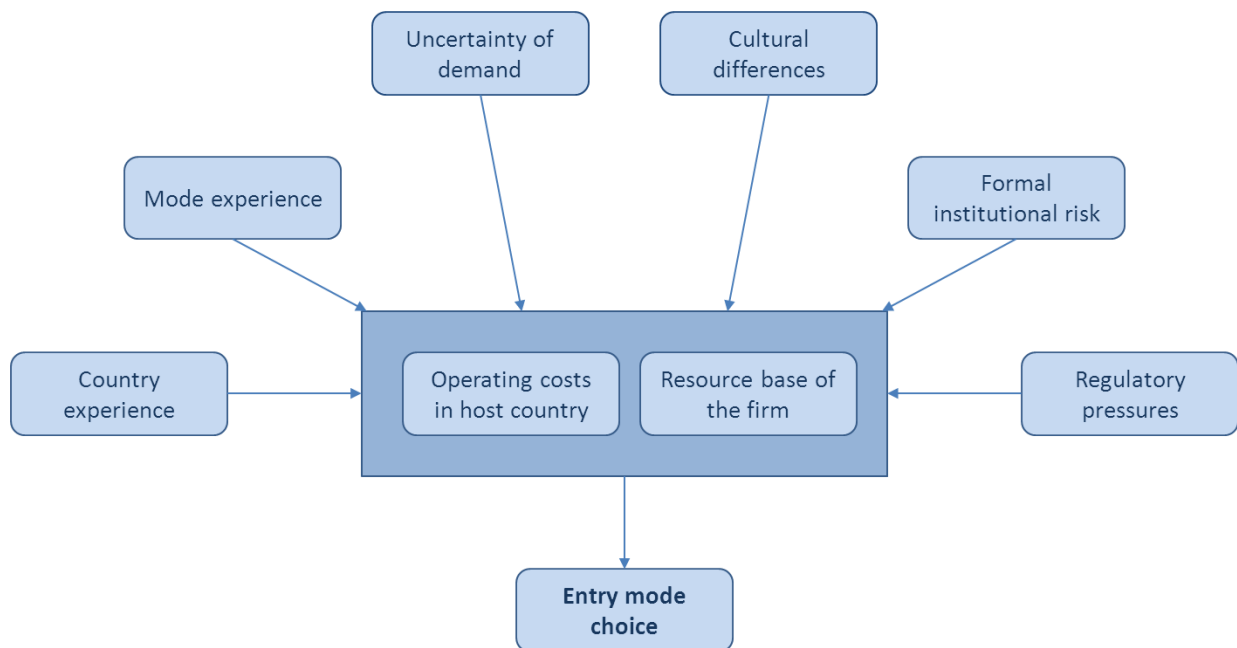
6.1.2 A revised model of factors influencing the entry mode choice

Paragraph 6.1.1 discussed which of the theoretically proposed variables that was found influence the entry mode decision. However, the empirical evidence outlined in the cross-case analysis makes it apparent that there are other influences to the entry mode choice than merely those drawn from the three theoretical perspectives and thus captured by the propositions. The factors which in the cross-case analysis were found to influence the choice, were the labour market, local content policies, cultural differences, the firm's resource base, uncertainty of demand, mode experience, country-specific experience, protection of proprietary knowledge and uniqueness of products and services. As shown in Table 8, some of these aspects where captured by the theoretically based influences, albeit not all of them.

Empirically based influences	Coverage by theoretical influences
Labour market	*None*
Local content policies	Regulatory pressures
Cultural differences	Cultural differences
The firm's resource base	*None*
Uncertainty of demand	*None*
Mode experience	Mode experience
Country-specific experience	Country-specific experience
Protection of proprietary knowledge	Formal institutional risk
Uniqueness of products and services	Regulatory pressures (moderating effect)

Table 8: Empirically based versus theoretically based influences

Table 8 reveals that *the labour market*, *the firm's resource base* and *uncertainty of demand* are influences to the SMEs' entry mode choice not captured by the theoretical propositions. As discussed in 5.2.2, uncertainty of demand causes a need to maintain flexibility and thus increases the likelihood of low commitment modes. Furthermore, conditions in the labour market – or more specifically, the operating costs in the host country – influence the entry mode choice by raising the bar for entering through equity modes, while the firm's resource base makes both equity modes as well as direct export infeasible for the majority of the firms. Thus both these factors constrain the range of possible entry modes the SMEs may choose from. Accordingly, the entry mode choice of SMEs is not a free choice, but a choice that is constrained by the host country's level of operating costs as well as the resource base of the firm. Thus while research has shown that MNEs generally enter emerging markets through equity modes, SMEs may not have the same options. Figure 3 shows a revised model for factors influencing SMEs' entry mode choice.

Figure 3: A revised model of factors influencing SMEs' entry mode choice in emerging markets

Compared to the original factor presentation (Figure 2), it is evident that although factors may influence in a certain direction, the final decision is influenced by considerations regarding resource limitations and operating costs. Moreover, as SMEs are risk averse, a stable environment is not sufficient to make them increase their commitment; SMEs also need to be sure of demand. Thus compared to figure 2, uncertainty of demand replaces the role of environmental uncertainty as a driver of flexibility needs. Furthermore, as no support was found for the proposed relationship between asset specificity and control, this factor excluded as an influence in the revised model. General international experience is not necessarily transferrable to emerging market context; thus the only type of foreign experience included in figure 3 is country-specific experience. It is also worth noting that although cultural differences is included in both models, the influence in the revised model stem solely from aspects drawn from institutional theory, and not transaction cost theory.

6.2 Discussion of the theoretical perspectives

The previous discussion presented the main influences to the entry mode decision; however, it also highlighted that certain expected influences were not found to have any impact, or that some influences could only be explained using certain theoretical approaches. This sub-section uses these findings to draw inferences regarding the extent to which the three theoretical perspectives –transaction cost theory (TCT), Resource-based theories (RBTs) and institutional theory (IT) – are suitable for investigating the entry mode decision of SMEs in emerging markets. More specifically, inferences are drawn from the degree to which the expected influences within each perspective had explanatory power to the entry mode decision of the respondent firms.

6.2.1 Transaction cost theory

In transaction cost theory (TCT), the default solution is transacting in the market through low control modes (Anderson & Gatignon, 1986). Nevertheless, there are certain aspects which may alter this position. According to TCT, asset specificity is expected to influence the degree of control needed to protect transaction-specific assets; high cultural differences increases behavioural uncertainty, but is perceived to cause SMEs to adapt low control modes to adapt to the cultural environment; international experience is believed to determine whether control mechanisms to deal with behavioural uncertainty are provided by the SME itself, or whether the responsibility for control of foreign operations is shifted to an external party; whereas environmental uncertainty is expected to make SMEs maintain flexibility. However, as Table 7 reveals, none of the proposed relationships argued by transaction cost theorists was supported by the findings.

Within TCT, the firm is a rational, economic actor that chooses entry mode with the objective of maximizing risk-adjusted return. Moreover, control is a cornerstone; the entry mode choice is strongly influenced by the degree of control needed to protect from opportunistic behaviour. However, the findings in this study do not imply that entry mode is chosen based on control considerations. In the instances where the choice of low control modes coincides with expectations within TCT, the SMEs do not indicate any causality between this mode choice and a reduced need for control; rather, for resource-constrained and risk-averse SMEs, there are other aspects that are more important and which cause them to limit their resource commitment.

Still, there is an economic rationale behind the entry mode choice, as the firms consider the cost efficiency of various modes. Nonetheless, due to the high cost intensiveness of equity entries, this option is precluded by most of the SMEs. What is more, even the internalization of activities through direct export, which according to Burgel and Murray (2000) also provides an SME with increased control, may be too resource demanding. Consequently, resource limitations may force SMEs to transact in the market, even though this may be a less efficient solution. If SMEs do not have the opportunity to enter though the mode that according to TCT may be more efficient, it follows that the theory cannot yield proper explanatory power. Hence, although TCT is a widely acknowledged theory in the MNE literature, the findings in this study imply that it is not readily extendable to smaller firms.

6.2.2 Resource-based theories

Resource-based theories (RBTs) focus on a firm's idiosyncratic resources and capabilities, and prior experience of the firm is considered a vital influence to the entry mode choice. According to RBTs, International experience increases SMEs' propensity to enter through more resource intensive and complex modes. Country-specific experience (CSE) is believed to enhance the SME's capability to compete in a certain market and may thus allow SMEs to increase their resource-commitment. Meanwhile, SMEs that lack CSE may get access to important context-specific resources through entering with a local partner or intermediary. Lastly, organizational capabilities built through previous mode experience are considered to make it more likely for SMEs to enter through the same mode in new markets.

The findings of this study indicate mixed results regarding the effects of experience (Table 7). While support is provided for the proposed influences of mode experience and CSE, no support is found for the proposed relationship between international experience and resource commitment. This finding is highly interesting, as it strongly contradicts much of the previous research on both SMEs and MNEs. A plausible explanation for this finding is the peculiar nature of emerging markets. Business conditions in these countries often differ greatly from those in advanced economies. Additionally, there is extensive heterogeneity among emerging markets themselves. Accordingly, this thesis has argued that general international experience may not be transferrable when entering the idiosyncratic environments of emerging markets. It was thus suggested that CSE was of greater importance, and indeed, the findings indicate that this type of experience has greater influence to the entry mode choice. Through CSE, SMEs may develop context-specific capabilities and gain confidence in the market, and thereby reduce the perceived risk. Furthermore, CSE provides access to important context-specific resources such as networks and knowledge of the market.

Although Resource-based theorists focus on how experience in particular influence the entry mode choice, the overall emphasis of RBTs lies on how firms through their entry mode choice may best exploit their resource base. The findings in this study indicate that resource constrained SMEs appear to focus on utilizing previously developed mode capabilities, rather than developing new ones. Moreover, resources that the firms don't possess, and that are important for entry, may be obtained through external sources. The evidence suggests that SMEs' lack of country-specific experience may be partly compensated for by entering through a local representative, combined with participation in support programs that provide access to context-specific resources such as initial contacts as well as knowledge of the market and cultural differences. Both aspects contribute to mitigating liability of foreignness in a new host country. Still, the findings suggest that inexperienced SMEs are risk averse and allocate their resources very cautiously. Consequently, there is a preference towards low resource commitment modes. In many instances small firms are even deprived of the opportunity of entering through high commitment modes; one of the most significant findings in this study is that SMEs may face resource limitations which severely constrain the range of feasible entry modes, particularly in cost intensive markets. To summarize, it appears that several aspects of RBTs may be extended to also apply to the investigation of SMEs' entry mode in emerging markets, albeit not the effect of international experience. Rather, it is resources and capabilities developed through previous sales modes as well as context-specific experience which should be emphasized.

6.2.3 Institutional theory

As noted in 2.4.4, institutional theorists argue that the institutions of a host country determine "the rules of the game" by which foreign entrants must adhere. Accordingly, the institutional environment should also be expected to exert an influence on firms' entry mode choice. Institutional theorists suggest that country-specific experience as well as cultural differences influence the degree to which a partner familiar with the environment is needed in order to

obtain legitimacy. Moreover, SMEs are expected to choose entry modes which allow them to conform to regulatory pressures, while mode experience is suggested to cause internal mimicry due to cognitive limitations. Lastly, formal institutional risk is believed to influence the need to safeguard proprietary assets. Table 7 shows that all proposed relationships discussed within the boundaries of institutional theory – economic as well as sociological – are more or less supported by the findings. What is more, the findings in this thesis also suggest that the institutional environment exert influences not covered by the propositions. Not only do regulations regarding local content exert a direct pressure for legal isomorphism; they also have an indirect effect, through significantly increasing the costs of operating in the host country. The high costs of labour are mainly due to protectionist rules stated by government authorities, and thus a result of regulatory institutions. Accordingly, the findings altogether imply that institutional theory (IT) provides considerably explanatory power regarding the entry mode choice of SMEs in emerging markets. In addition to support for the proposed influences; institutional aspects are also found to constrain the entry mode choice, by precluding several of the SMEs from entering through equity modes.

Furthermore, the findings imply that the institutional environment has two effects, in accordance with the two lines of reasoning within IT. According to institutional economists, the main role of institutions is to facilitate business. In emerging markets where market-supporting institutions are weak, as is the case in Brazil, the findings indicate that market imperfections may raise the costs of doing business in several ways. As previously noted, regulatory institutions cause inefficiencies in the labour market, which substantially raises the cost of establishing a subsidiary. In addition, exporting becomes more costly due to a rigid and bureaucratic import regime with high taxes. Furthermore, property rights protection is considerably lower than in developed economies; thus safeguarding of proprietary assets may be challenging. Hence, in emerging markets institutions may constrain business activities, and entering SMEs must consider institutional aspects in their entry mode choice in order to find the most efficient solution, within the boundaries of their resource base. Accordingly, the economic perspective of institutions appears to be of high relevance for the entry mode choice in emerging markets.

According to researchers within sociological IT, institutions define what is legitimate and create pressures for conformity. The findings suggest that SMEs entering the petroleum market in Brazil face strong guidelines to which they must conform in order to gain legitimacy. Furthermore, knowledge of the business environment as well as cultural aspects is vital. Brazilians emphasize trust (4.1.2), and for a foreign entrant to earn this, social legitimacy must be in place, strengthening the need for a partner or intermediary in the unfamiliar landscape. Furthermore, the use of previously adopted entry modes, combined with relatively limited range of entry modes considered, suggests that SMEs choose entry modes which by decision makers have obtained cognitive legitimacy. However, there is another aspect related to cognitive legitimacy that may also help explain the narrow range of entry modes considered. Sociological IT scholars (Yiu & Makino, 2002) suggest that firms faced with uncertainty seek guidance from the experiences of other organizations and mimic

the actions of their peers, a behaviour referred to as *external mimicry* (Yiu & Makino, 2002). Accordingly, the fact that almost all participants in the Navigator-programme consider export, and that the emphasis lies on exporting and subsidiary establishment in the Navigator-seminars, may make it more likely for the SMEs to enter through these modes. Through imitating the entry mode of their peers, Yiu and Makino (2002) suggest that firms may gain cognitive legitimacy when making their decision. To conclude, the need to attain legitimacy appears to influence the entry mode choice in several ways, and thus the sociological perspective of institutions also provides explanatory power to the entry mode choice.

Within IT, it is thus evident that both the economic as well as the sociological perspective on institutions can help explain the entry mode decision of SMEs. Furthermore, the findings suggest that the rationale of economic efficiency does not preclude that of legitimacy when choosing entry mode; the SMEs attempt to enter with the most cost efficient solutions within the frames of what will provide them with legitimacy. Thus the two perspectives are complementary rather than mutually exclusive, and their combination leads to an enhanced understanding of the role of institutions in influencing the entry mode choice of SMEs in emerging markets.

7 Implications

This section presents the implications of the findings in this study, and is based on the discussion in the previous section. This thesis suggests that the findings have important implications for theory, managers and policy makers, which are presented in succession throughout this section. These implications apply to the field of SMEs' entry mode choice in emerging markets.

7.1 Implications for theory

This study has combined aspects from the three most widely adopted theories among entry mode scholars in general as well as emerging market researchers, which has facilitated (1) a comparative analysis regarding which theories provides greater explanatory power regarding SMEs' entry mode choice in emerging markets, and (2) insight into how institutional effects influence other theoretical aspects. Based on the discussion of the theoretical perspectives in 6.2, several theoretical implications may be drawn, which scholars eager to further explore the field should take into account in their studies.

7.1.1 Emphasize institutions and both lines of institutional theorizing

The findings in this study suggest that institutional theory (IT) is the theoretical perspective which provides the greatest explanatory power; institutions significantly impact the entry mode choice. It is not surprising that institutions play a vital role upon entry into emerging markets. While markets work smoothly in mature developed countries, SMEs entering emerging markets may face institutional inefficiencies, more restrictive regulatory institutions, as well as differences in informal institutions such as norms, cultures and cognitions. Indeed, among the three theories considered, IT is the perspective that has gained the most momentum directly from emerging market research. In their literature review on strategy research, Wright et al. (2005) discover that IT has risen to become a dominant theory guiding MNE strategy in emerging markets. This thesis suggests that to a great extent also SME strategy can be explained by this theoretical perspective. Irrespective of the size of a firm, it is embedded in the institutional environment in the host country, and must adhere to rules and expectations. While institutions have merely been treated as 'background' in traditional theories (Peng et al., 2008), this treatment is highly deficient in emerging markets. Scholars should not underestimate the power of institutions, but rather push them to the forefront of their investigation.

Moreover, this is the first study which has applied both the economic and sociological perspective of IT to SMEs' entry mode choice, and according to the findings, it is evident that both lines of theorizing must be applied in order to gain a better insight into the entry mode choice. Scholars (Schwens et al., 2011) applying institutional theory to SME research have focused primarily on institutional economics, and not incorporated the effects of isomorphic pressures; accordingly, they fail to provide a complete understanding of the impact of institutions on the entry mode choice. Further research should thus seek to combine the aspects from both perspectives within IT.

7.1.2 Traditional stage models are of less value in emerging markets

According to the findings, international experience is of limited influence to the entry mode choice. This has important implications SME internationalization research; although stage models and internationalization theory (Johanson & Vahlne, 1977) are widely acknowledged in this literature, the findings in this thesis suggest that these lines of theorizing, and their emphasis on international experience, are of less value in the idiosyncratic business environments of emerging markets. Traditional internationalization theory was developed prior to the rise of emerging markets in the global economy, and authors (Li & Meyer, 2009) have argued that international experience is more generalizable across developed economies. In emerging markets, on the other hand, this thesis stresses the importance of country-specific experience. Further research in these contexts should thus further examine impact of this type of experience, rather than more general international experience.

7.1.3 Traditional transaction cost theory may not be generalized to SMEs

One of the most striking findings in this thesis is that although transaction cost theory (TCT) has received wide support among scholars examining the entry mode choice of MNEs, the applicability of this perspective to SMEs may be significantly lower. Limitations of resources and risk aversion are found to overrule theoretical expectations to enter through high commitment modes, while the choice of low commitment modes appear to be based on rationales other than transaction cost considerations. According to Meyer et al. (2009), traditional TCT (Williamson, 1985) mainly focuses on micro-analytical aspects such as bounded rationality and opportunism, and fails to take into account how broader macro-level institutions, such as national regulative frameworks, influence transaction costs. Combined with resource constraints, this may be one of the reasons why TCT appeared to be of low relevance in this study. This study thus proposes that the value of TCT may increase if this perspective is integrated with IT, an argument that will be further elaborated on in the next paragraph.

7.1.4 Adopt a multi-theoretical approach and explore interactive effects

While IT is a highly useful perspective in emerging markets, this perspective alone does not apply sufficient insight; also Resource-based theories (RBTs) appear to provide explanatory power to the entry mode choice of SMEs, particularly through the organizational capability (OC) perspective. Another important resource aspect specific to SMEs is that limited resource bases of the firms significantly narrow the range of feasible entry modes, causing expectations within other theoretical perspectives not to be met, and the entry mode choice to be constrained. What is more, the findings also suggest that institutions influence resource-based considerations by affecting which resources become important. SMEs entering emerging markets will most likely face an institutional environment to which they are not accustomed. Hence, in emerging markets, their liability of foreignness will be higher than in the more familiar advanced economies. Differences in both formal and informal institutions alter the rules of the game and cause an increased need for context-specific resources, such as how to deal with cultural differences or bureaucratic procedures. From an institutional economics perspective, such resources will reduce the costs of doing business in the foreign

market, while from a sociological perspective, knowledge of how to do business will make it easier to conform to the local business landscape and obtain legitimacy. Accordingly, the combination of IT with RBTs provide new insights into the investigation of entry mode choice, and helps explain why international experience and traditional stage models are of less value to SMEs' entry mode choice in emerging markets.

As institutions influence the efficiency of markets and cost of doing business, it follows that institutions affect transaction costs. TCT was originally developed in mature, developed markets; hence, while an entry mode according to traditional TCT may be considered efficient when institutions work smoothly; institutional conditions in emerging markets may impact costs so that an entry mode that according to TCT is efficient in an advanced economy may be a less optimal solution in emerging markets. The findings in this thesis suggest that inefficiencies in the institutional environment may increase the costs of several entry modes. Thus the desired position of control and resource commitment may be altered. This may be one of the reasons why TCT failed to exhibit explanatory power in this study. Accordingly, this thesis suggests that when investigating SMEs' entry mode in emerging markets, an enhanced understanding may be obtained by integrating institutional economics with transaction cost theory, and exploring interactive effects. This view is supported by several scholars within entry mode research on MNEs (Hoskisson et al., 2000; Meyer, 2001; Wright et al., 2005), and this thesis strongly argues that it may be relevant also for SMEs. Further research should thus examine in greater depths how the interaction between IT and TCT may affect the entry mode choice. For instance, some scholars (Delios & Beamish, 1999; Yiu & Makino, 2004) emphasizing both TCT and IT in their research, extend TCT to encompass not only the extent to which assets transferred need protection, but also the transaction costs related to accessing complementary resources in the host country. Nevertheless, the investigation of how institutions affect transaction cost considerations has mainly been directed towards MNEs' choice between various equity modes. Further research should thus focus on how such interactions may apply to SMEs as they probe into the challenging context of emerging markets.

To summarize, the influence of institutions on business costs and resource considerations makes it apparent that the consideration of merely one theoretical perspective is insufficient when investigating SMEs' entry into emerging markets. Most SME scholars (Brouthers et al., 1996; Brouthers & Nakos, 2004; Nakos & Brouthers, 2002) have only applied one perspective as their theoretical base. This thesis suggests that this is inadequate. Firms and the transactions they conduct are embedded in the institutional context, thus a multi-level investigation of influences on firm-level, transaction-level and national-level variables is needed. More specifically, further research should adopt a multi-theoretical approach, and explore integrative effects between IT and RBTs, as well as between IT and TCT.

7.1.5 Conduct quantitative as well as qualitative research
The findings in this study indicate that there are other factors than merely those drawn from the theoretical perspectives that influence the entry mode choice. If this study had relied solely on a deductive approach based on quantitative research, these aspects might have been

missed. Qualitative research allows for the inclusion of a more inductive approach, and captures aspects that may be overlooked in a survey with a pre-defined set of questions that does not allow further elaboration by the respondents. However, to strengthen external validity of this study, there is a need for quantitative research to determine whether the findings in this thesis may be statistically generalized to a wider sample of SMEs.

7.2 Implications for managers

Based on the discussion above, several implications for managers can be deduced from the findings of this study. It is, however, important to emphasize that the SMEs in this study cannot be considered a representative sample of the whole population of SMEs. Thus implications stemming specific attributes of SMEs may apply to differing degrees.

7.2.1 Thoroughly map the institutional context of the host country

The findings in this thesis suggest that the institutional environment of the host country is of significant importance to the entry mode choice. In emerging markets, SMEs may meet formal and informal institutions to which they are not accustomed, and unfamiliar rules of the game. Thus before an entry mode choice can be made, one of the most important tasks for managers is thoroughly to map the institutional environment of the particular market they seek to enter; both in regards to formal and informal institutions. Managers should evaluate whether institutions cause the cost of certain entry modes to be particularly high, and the extent to which they need to fear dissemination of proprietary knowledge. Furthermore, managers need to consider carefully how rules and regulations may apply to their company and their entry mode choice. They must also assess the norms and cultures in the host country and have a humble attitude towards cultural differences. As social legitimacy is vital for success, a thorough understanding is needed of how trust and legitimacy in the local context may be obtained. A complete mapping of the institutional environment may seem like a daunting task for a resource constrained SME. Still, there are several external sources of information managers may utilize. Domestic support organizations may have branch offices in the host country and provide assistance in the assessment process. In addition, global agencies such as The World Bank and The Global Property Guide publish extensive statistics for most of the countries in the world, which may also be relevant. As SMEs may not be able to afford to fail in their entry, they should not hesitate to review the sources necessary prior to their entry mode decision; once a decision has been made and the entry process has started, it may be costly to discover that important institutional aspects have been neglected or overlooked.

7.2.2 Gain access to context-specific resources

The findings suggest that general international experience is of less value in the idiosyncratic business environment of emerging markets. Thus managers cannot solely rely on transferring experience from previous foreign market entries. Rather, country-specific experience is argued to be more valuable, as it provides access to context-specific resources such as networks as well as knowledge and capabilities regarding how to do business in that particular market. When procedures are bureaucratic and cultural differences are high, SMEs

need to know how to deal with it. This may reduce costs of doing business and help establish legitimacy. If the firm has no prior experience with the host country, managers should seek to obtain context-specific resources through other sources. The findings suggest that participation in support programmes may prove to be highly valuable to inexperienced firms. Furthermore, support agencies may have skilled and experienced consultants ready to assist small firms in their entry. Managers should explore whether such agencies have branches in the host country, and leverage on these. They may provide managers with initial access to networks and knowledge of the market. If the assistance from external organizations is insufficient, managers may choose an entry mode which involves a local partner. Moreover, a partner with which they have prior experience may prove to be particularly useful, as relations and trust have already been established.

7.2.3   Gain initial foothold in the market before committing more resources

The findings suggest that SMEs may be highly risk averse. When their resource base is limited, resources need to be allocated cautiously across markets. If institutional imperfections cause very high operating costs in the host country, resource constrained SMEs may not wish to enter through high commitment modes without reassurance of sufficient demand for their products or services, especially without experience in the host country. As noted previously, SMEs may not have the same capability to absorb losses as larger firms; hence, before committing more resources, it may be beneficial for managers to attempt to gain an initial foothold in the market. There are several ways to accomplish this. Firstly, inexperienced firms can initiate their entry into an emerging market through low commitment modes, through which managers maintain the flexibility to withdraw from the market, should demand not be satisfactory. Second, managers can initiate the entry with one or several pilot projects. This may provide the SME with an initial client base, as well as an impression of how the products or services are being received in the host country market. In turn this will provide the SME with a more specific perception of potential demand. In addition to supplying insight into the market potential, the moves to gain an initial foothold will provide the SME with important country-specific experience and increased access to networks, context-specific knowledge and legitimacy in the host country environment, which in turn may make it less challenging to enter through higher commitment modes, should the demand potential encourage such a move.

7.3   Implications for policy makers

The findings suggest that SMEs without prior host country experience may rely heavily on governmental support organizations. Such organizations can provide access to important context-specific resources and reduce SMEs' perceived risk of entering emerging markets. Nevertheless, there are certain measures that may be taken to further assist SMEs in their entry in emerging markets.

7.3.1   Emphasize partner-facilitation

The findings suggest that support programmes are valuable to firms in terms of establishing initial contact as well as insight into cultural differences and the business landscape.

Nonetheless, it is also evident that such support does not substitute country-specific experience. SMEs inexperienced in the host country context may face increased need for a local representative which can provide context-specific resources. Moreover, when emerging markets are distant from the home country in terms of time and space, SMEs entering through export may need a representative who can act as an extension of the company, as direct export may be too resource-demanding. However, in emerging markets information systems are often not properly developed, thus finding a good representative may present challenges. Thus, in addition to providing initial market knowledge, government agencies should be a partner-facilitator, and assist SMEs in their search for a local representative or partner.

7.3.2 Expose SMEs to a wider range of options

The findings suggest that influence from governmental agencies may cause SMEs to consider a very narrow range of options; in this study the SMEs appeared to be biased towards exports and establishing a subsidiary. For many SMEs, however, subsidiary establishment may be too resource intensive. Hence, exporting may appear to be the only viable option left. Still, exporting to emerging markets may in many instances be challenging due to rigid import regimes and bureaucracy. When institutional inefficiencies cause the costs of both exporting and equity modes to increase significantly, intermediary forms of entry may prove to be more efficient. Inexperienced SMEs could thus benefit from being introduced to a wider range of lower commitment entry modes, such as licensing and non-equity collaboration through alliances.

7.4 Limitations and directions for future research

This study combines insights from TCT, RBTs as well as both directions within IT. This is the first study on SMEs which incorporate aspects from all these four lines of reasoning; thus further research is needed in order to support the findings. This means studying entry into other emerging markets, applying SMEs with different attributes as case firms, as well as performing both qualitative and quantitative research.

This thesis emphasizes the importance of the institutional perspective, as institutions are found to have considerable impact on the entry mode choice. However, Brazil is the only emerging market investigated in this study. As noted repeatedly throughout this thesis, the degrees to which institutions facilitate or constrain business differ greatly among emerging markets. For instance, while India, Brazil and Russia all receive scores of 120 or worse on the World Bank's "Ease of doing business index" (The World Bank, 2011), other emerging markets such as Chile, South Africa and Bahrain score as high as above 50. Furthermore, as one of the SMEs in this study remarked, due to the tight labour market stemming from governmental policies, the operating costs in Brazil are at the level of those in developed economies. Cost-wise this is likely to put Brazil in a unique position relative to many other emerging markets, as these countries generally have lower costs of labour 2.2.1. Consequently, the bar for SMEs to enter through equity modes may be considerably higher in Brazil than in other otherwise comparable countries, causing SMEs' limited resource bases to have a greater impact. Thus there may be several aspects of Brazil in particular which do not apply to other emerging markets, at least not to the same extent. Moreover, even *within* an

emerging market the rules of the game may differ. This thesis has only studied SMEs seeking to enter a particular market, namely the petroleum market. As this industry is the prime engine of Brazil's growth, it is also more heavily regulated than other industries in Brazil, as the government expects to leverage from this sector upon the rest of the economy (4.1.2). If an SME were to enter a different market, it might not encounter the same demands regarding local content or costs of operating. Consequently, although this thesis still maintains that institutions creates the domain in which foreign entrants become embedded, and accordingly must adapt their entry strategies to, further research is needed to investigate whether the same results regarding influences to SMEs' entry mode choice may be obtained in other emerging market contexts.

What is more, the SMEs in this study are relatively small compared to the rather wide range of companies that may be classified as SMEs. While the definition encompasses firms with staffs of up to 250 employees and revenues of € 50 million, the SMEs in this thesis have between 15 and 30 employees, and revenues between €1.5 and €8 million; hence they are more likely to face resource limitations. A study investigating larger SMEs may thus come to different conclusions regarding resource constraints. Further studies could incorporate a more varied spectre of SMEs, to examine whether the resource base and risk aversion has the same influence on the entry mode choice, and, consequently, whether or not this overrules other theoretical expectations to the same extent.

This thesis has discussed several proposed influences in light of more than one theory. Accordingly, it becomes challenging to isolate the influence from a certain theoretical perspective. For instance, it is difficult to determine whether the effect of mode experience has a greater influence due to previously developed organizational capabilities or due to a limited cognitive mind-set of the decision makers. Further research could thus attempt to investigate each factor more specifically within the boundaries of different theoretical domains. Additionally, this thesis has previously argued a need to further explore how interactive effects between institutional theory and transaction cost theory may apply to SMEs in emerging markets. Additionally, this thesis has suggested the value of integrating institutional theory with resource-based theories.

The interviews were conducted prior to the entry into Brazil, and while the firms were still in their planning processes. Consequently, the entry modes the firms indicate during the research process that they will use may not necessarily be the ones they end up with. This weakens the validity of the research. The research is thus limited to uncovering how certain factors influence the manager's reasoning and *predicted* choice during the process. Further research should thus study SMEs who have concluded in their decision of entry mode.

8 Conclusion

The objective of this study was to examine which factors influence SMEs' entry mode choice in emerging markets, and how these factors influence. Most research on entry mode choice has focused on MNEs, and what applies to larger firms does not necessarily apply to SMEs. Moreover, while the entry mode research specific to emerging markets is limited within literature on MNEs, it is almost absent within the research field of SMEs. Emerging markets present new challenges, and SMEs may react differently to these.

The findings suggest that the entry mode choice of SMEs is influenced by several variables. SMEs are forced to adopt entry modes which allow them to conform to *regulatory pressures* stemming from the institutional domain in the host country. A lack of *country-specific experience* is found to lead to an enhanced preference for low commitment modes. In addition, it increases the propensity of entering with a local partner, as this may provide the SME with access to important context-specific resources such as networks and knowledge of the markets. High *cultural differences* are also found to strengthen the need for a partner who knows how to navigate in the unfamiliar business landscape. Furthermore, SMEs appear to exhibit a path dependency in their entry mode choice, as previous *mode experience* is found to make it more likely to enter through the same mode as used in prior international endeavours. *Formal institutional risk* causes protection of intellectual property to be weaker, and thereby an increased need to safeguard technology for SMEs competing on the basis of proprietary know-how, while *uncertainty of demand* is found to make the SMEs lower their resource commitment, as this provides flexibility and exit-options. What is more, the findings suggest that the entry mode choice of SMEs is constrained; the *operating costs in the host country* as well as *the resource base of the firm* determine the range of feasible entry modes the SMEs may choose from.

Institutional theory is the theoretical perspective which provides the most valuable insight into the entry mode decision of SMEs entering emerging markets. This is also to be expected, as the institutional environment of emerging markets differs significantly from that of advanced economies. Inefficiencies in the formal institutions raise the costs of doing business, while unfamiliarity with both formal and informal institutions increases SMEs' need to leverage on external organizations. At the same time, the idiosyncratic contexts of emerging markets lead to a greater need for context-specific resources. Consequently, previous international experience is of lower value, which is argued to be a reason behind one of the most striking findings of this study; traditional stage models, which have received extensive support in SME internationalization literature, are not found to yield any explanatory power. Rather, in emerging markets, country-specific experience is more important. Through the impact of such experience, along with mode experience, Resource-based theories have explanatory power for SMEs' entry mode choice in emerging markets. Another important finding of this study is that, although transaction cost theory is widely acknowledged in MNE entry mode literature, it may not be readily extendable to resource constrained and risk averse SMEs. However, further research is needed to support the findings of this study. Moreover, as institutions is found to affect both transaction costs and

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Resource-based considerations in emerging markets; researchers should adopt a multi-theoretical approach, and explore integrative effects between IT and TCT, as well as IT and RBTs. Either way, managers must turn their attention towards the institutional environment of the host country and the attainment of context-specific resources. Additionally, managers of resource constrained SMEs should find ways to gain an initial foothold before committing more resources.

9 References

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Appendix 1: Interview guide

1. Bakgrunnsinformasjon

1.1. Selskapsnivå

1. **Antall ansatte, omsetning, økonomiske resultater**
2. **Kan selskapets ledergruppe beskrives?**
   a. Antall personer, ansvarsområder, utdanning, ledelses- og bransje- og internasjonal erfaring
3. **Hvem er eierne, hvem bidrar med finansiering?**
4. **Kan selskapets historie kort gjengis fra oppstart fram til i dag?**
   a. Hvilke faktorer har hatt størst betydning for selskapets utvikling?
   b. Har selskapsvekst skjedd organisk, eller via oppkjøp, JVs etc.?
   c. Spesielle muligheter/utfordringer?
   d. Hvor mange av grunnleggerne er fremdeles med i bedriften?

1.2. Produktnivå

1. **Hva er produktene/tjenestene selskapet tilbyr?**
   a. Kort beskrivelse av teknologi/kompetanse
   b. Proprietær teknologi vs. moden teknologi som er allmenn tilgjengelig?
      i. Er teknologiutviklingen i bransjen hurtig/stabil?
   c. Hvor stor del av omsetningen brukes på F&U?
   d. Er produktet/tjenesten avansert/enkelt?
   e. I hvor stor grad er produkt/tjeneste spesialtilpasset kunde vs standardisert?
   f. Utføres tjenesten on site eller ved hovedkvarteret til bedriften?
   g. Er det definerte inntektsmodeller etter salg? E.g. support etter salg?
   h. Produktfortrinn jfr med konkurrerende produkter? Hvilke?

1.3. Markedsnivå

1. **Kunder**
   a. Hvem er kundene? Norge? Internasjonalt?
   b. Mange potensielle kunder, eller begrenset antall?
   c. Er produkter og marked forutbestemt, eller kan en velge?
   d. Hvor lett er det å skifte kunder? (avhengighetsforhold?)
2. **Hvordan markedsføres de ulike produktene?**
   a. Kunder/segmenter
   b. Kanaler
   c. Prissetting
   d. Er det planer for ekspansjon, for eksempel til andre segmenter/land?
   e. Er tidsaspektet viktig - avgjørende med hurtig aksept i markedet?
3. **Hvordan foregår salg av produktene/service i Norge?**
   a. Direkte fra hovedkontor/via agent/distributør/salgskontorer?

      b. Motiv for salgskanaler
4. **Hvem er konkurrentene?**
      a. Norske/internasjonale?
      b. Store/små?
      c. Hva er bedriftens konkurransefortrinn overfor konkurrentene?
5. **Hvordan er markedsutviklingen?**
      a. Vekst, stabilitet, nedgang?
      b. Individuelle markedsforskjeller?
6. **Hvor stor er en typisk ordre?**
7. **Hvordan er innkjøpsprosessen?**
      a. Er produktet viktig for kundene?
      b. Har valg av leverandør langsiktige konsekvenser?
      c. Hva er de viktigste faktorene for kjøp hos kundene?
            i. Kriterier for valg av løsning, leverandør, produkt?
8. **Er der definerte inntektsmodeller etter salg? Hva tenkes rundt service/oppfølging?**

2. Internasjonal virksomhet

2.1. Global tilstedeværelse, internasjonal erfaring, motivasjon for ekspansjon
1. **Har bedrifter noen kunder eller aktiviteter utenfor Norges grenser?**
2. **I hvilke land/markedsområder er dere tilstede?**
      a. Hvorfor disse landene?
      b. Hvordan foregår prosessen med å velge satsingsområder eller –land?
3. **Drivfaktorer (tilgang til markeder, råvarer, teknologi, internasjonal samarbeid)**
4. **Hvor tidlig ble det aktuelt å satse internasjonalt?**
5. **Hvilke inngangsstrategier er blitt benyttet i forbindelse med tidligere internasjonal ekspansjon?**
      a. Direkte eksport/agenter/distributører/samarbeidspartnere internasjonalt?
      b. Hvorfor har disse strategiene blitt valgt?
      c. Ressurser, egne erfaringer, eksterne erfaringer?
      d. Hvordan har dette fungert?
6. **Har internasjonaliseringsprosessen endret seg underveis?**
      a. Grunnet erfaringer/lærdom trukket ut?
7. **I hvilken grad evaluerer dere prosessen som har vært i forkant av internasjonale satsinger?**
      a. Når skjer dette?

2.2. Muligheter/motiv for inngang
1. **Hvorfor ønsker bedriften å entre Brasil? Motiv?**
2. **Potensielle kunder i Brasil. Hvem? Antall?**
3. **Hvorfor tror dere bedriften vil lykkes i det brasilianske markedet? Mulige konkurransefortrinn?**

4. **Hvilken tidshorisont har bedriften for etablering i Brasil?**

2.3. Valg av inngangsstrategi i Brasil

1. **Hvilken inngangsstrategi ønsker bedriften å benytte i Brasil?**
   a. Hvilke alternativer står/stod de mellom?
2. **Hva er årsaken til at de vurderer akkurat denne/disse inngangsstrategiene? (faktorer med innvirkning på valget)**
3. **Hva er de viktigste kravene en inngangsstrategi må oppfylle?**
4. **Hva er de viktigste kravene en partner må oppfylle?**
5. **Var det noen alternative inngangsstrategier som aldri ble vurdert? Hvorfor?**
6. **Sammenheng mellom tidligere erfaringer og inngangsstrategi?**
   a. Tidligere erfaringer de kan dra nytte av? (salgskanaler, samarbeidspartnere, internasjonal erfaring)
   b. Sammenheng mellom salgskanaler i Norge og valg av inngangsstrategi i Brasil?
   c. Nivå av internasjonal erfaring: annen inngangsstrategi eller vurderinger hvis mer de var mer erfarne
7. **Partner**
   a. Avhengig av å ha en partner? Hvorfor?
   b. Kreves det mye opplæring av en partner?
   c. Er bedriften bekymret for at en partner skal utnytte negativt deres teknologi/kunnskap?
   d. Hvis forholdet med en spesifikk partner viser seg å ikke fungere, vil det være vanskelig eller kostbart å bytte partner? Hvorfor?
   e. Innvirkning på hva slags type partner? Franchising, JV, distribusjon, agent, samarbeid)

2.4. Utfordringer

1. **Er organisasjonen forberedt på å støtte virksomhet både i Norge og i utlandet?**
2. **Hva er de største utfordringene ved inngang i markedet?**
   a. Hva er den største inngangsbarrieren?
   b. Innvirkning på inngangsstrategi?
3. **Ser bedrifter noen ekstra utfordringer ved å operere i Brasil kontra et mer utviklet land som Norge?**
   a. Innvirkning på inngangsstrategi?
4. **Hvordan går bedriften fram for å evaluere muligheter og utfordringer i Brasil?**
   a. Benyttes rammeverk eller definerte kriterier?
5. **Bedriftens kjennskap til Brasil**
   a. Tidligere erfaringer fra Brasil?
   b. Kjennskap til businesskultur og marked
   c. Tilgang til nettverk
   d. Innvirkning ved inngang/inngangsstrategi?
6. **Private property rights/legal protection**

a. Er bedriften bekymret for uønsket lekkasje/utnyttelse av teknologi/kunnskap/ressurser i Brasil?
b. Er bedriften bekymret for uønsket lekkasje/utnyttelse av teknologi/kunnskap/ressurser i Norge?
c. Innvirkning på inngangsstrategi?

7. **Usikkerhet/volatilitet**
   a. Brasil usikkert/risikabelt å gå inn i?
      i. Økonomiske svingninger, politisk ustabilitet, valutasvingninger
   b. Hvordan vurderer dere behovet for fleksibilitet og exit-muligheter?
   c. Innvirkning på valg av inngangsstrategi?

8. **Kulturforskjeller**
   a. Hvilke tanker har bedriften om kulturforskjeller mellom Norge og Brasil?
   b. I hvor stor grad er bedriften nødt til å tilpasse seg den brasilianske forretningskulturen
   c. hvilken betydning har kulturforskjeller for deres inngang i Brasil?

9. **Korrupsjon**
   a. Oppfattes korrupsjon som et problem?
   b. Hvordan påvirkes de isåfall av dette?

10. **Myndigheter/forretningsklima**
    a. Det norske bedriftsmiljøet i Brasil/Rio?
    b. Brasilianske myndigheters holdninger til utenlandske/norske bedrifter? (ulempe ift lokale?
    c. I hvilken grad blir bedriften påvirket av føringer/lover fra brasilianske myndigheter
       i. Local content
       ii. Eierskap
       iii. Føringer med innvirkning på inngangsstrategi?

2.5. Nettverksaktører i internasjonaliseringsprosessen

1. **Har bedriften et internasjonalt kontaktnettverk?**
2. **Hvem er bedriftens sentrale samarbeidspartnere?**
   a. Rolle
   b. Hvordan har samarbeidet utviklet seg over tid?
3. **Støtte fra Innovasjon Norge (IN)**
   a. Bidrar deltakelsen i NAVIGATOR-prosjektet til en enklere internasjonaliseringsprosess? Hvordan?
   b. Bruker dere støtte fra IN utenom NAVIGATOR-prosjektet?
4. **Støtte fra andre aktører**
   a. Får bedriften støtte fra andre aktører?
      i. INTSOK, handelskammer, ambassade, andre bedrifter, konsulentselskaper
      ii. Hvordan ble kontakten opprettet?
   b. I hvilken form kommer denne støtten?

c. Hvilken støtte er høyest verdsatt? Kommer bidragene i ulike deler av internasjonaliseringsprosessen?

3. Risikoidentifikasjon

1. **Hva ligger dere i begrepet risiko/hvordan tolker dere begrepet?**
2. **Hvordan identifiseres risikofaktorer i internasjonaliseringsprosessen?**
   a. Hvilke faktorer tas hensyn til? (Environmental risk (political, legal), industry risk, organizational/firm risk etc.)
      i. Hvilke faktorer regner dere som viktigst?
         1. Noen produktrelaterte risikofaktorer?
         2. Er dette avhengig av land?
      ii. Finnes det en «best practice» for risikoidentifikasjon?
   b. Gjøres alt internt, eller brukes også eksterne aktører for risikoidentifikasjon?
      i. Hvilke? (Innovasjon Norge, analyseselskaper, nettverksaktører)
   c. Brukes egne verktøy/modeller i denne prosessen?
3. **Hvordan evalueres ulike risikofaktorer**
   a. Kvantifiseres risiko?
   b. Evalueres risikofaktorene samlet, eller individuelt?
      i. Hvordan sammenlignes risikofaktorer av ulik natur?
4. **Hvordan integrerer dere funnene i en risikoanalyse i strategiutviklings-/internasjonaliseringsprosessen?**
   a. Risikoanalyse før strategiutvikling?
   b. Kontinuerlig risikoanalyse fulgt av strategijusteringer?
      i. Låses strategien? Når?
   c. Sees mulig gevinst i sammenheng med mulig tap, eller er det en tendens til å overse mulige tap?
5. **Hvor høyt prioriteres identifisering, evaluering og reduksjon av risiko i forhold til andre hensyn in internasjonaliseringsprosessen?**
   a. E.g. Markedsanalyser, partnersøk
6. **Hvordan vil dere anslå risikobildet i forsøket med å gå inn i det brasilianske markedet i forhold til andre prosjekter bedriften har gjennomført?**

4. Strategier for risiko-håndtering

1. **Kan noen risikofaktorer påvirkes av deres valg?**
   a. Har risiko en relasjon til return? Får man noe igjen for å ta risiko?
   b. Kan risiko kontrolleres, reverseres eller unngås? Er det eventuelt ren gambling?
   c. Vil du si at bedriften er risikoavers, eller risikotakere?
      i. Hva med beslutningstakerne?
      ii. Hvordan påvirker bedriftens situasjon dette?
         1. Kan bedriften ta mer/mindre risiko hvis det går generelt bra/dårlig?
2. **Hvilke strategier brukes/har blitt brukt for å håndtere risikoelementer?**

      a. Internalisering/eksternalisering av prosesser
      b. Risiko trade-offs
            i. Location, entry commitment, revenue share
      c. Millers strategiske risikotiltak
            i. Imitasjon, avoidance, fleksibilitet, samarbeid, kontrolll
      d. Exit-strategier

3. Har det blitt vurdert å dra gradvis utfra Norge, til nærliggende land først?
      a. Hvorfor, hvorfor ikke?

4. I hvilken grad spiller kostnader (e.g. transaksjonskostnader) en rolle under valg av strategi?
      a. Transaksjonskostnader ved samarbeid vs. transaksjonskostnader ved internalisering